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JANUARY 1955



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# Accountancy

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## Professional Notes

### Interim Company Reports Again

THE INSTITUTE OF DIRECTORS is such a go-ahead body that it comes as a surprise and a shock to find it protesting against Sir John Braithwaite's plea for "interim progress reports" by companies, especially since the Institute uses ill-chosen language in making its protest. It feels strongly, says the Institute in its statement, that this is a matter which can be determined only by the Boards of individual companies in the light of their own circumstances, and "it is unfortunate that the chairman of the Stock Exchange should have thought fit to suggest a measure of compulsion or restriction" on the manner in which the results of companies should be presented to the shareholders and the public.

The short answer to this—and Sir John naturally lost no time in giving it—is that he had not suggested any

compulsion or restriction. As was made plain in the quotation of his words in our Professional Note last month (page 441), he recognised that there were circumstances in which interim reports might be misleading, but advocated their being made when reasonably possible. No one denies, for example, that in seasonal trades an accounting statement at less than annual intervals could be misconstrued, though even then an appropriate narrative and comparative figures might avoid that result. It is true, also, that some companies with many overseas branches might find difficulty in producing figures except for the accounting year, though this is a difficulty which many large American concerns with branches in numerous countries have been able to overcome, some of them to the extent of issuing, not merely half-yearly, but also quarterly statements. It is an unjustified aspersion upon

the accounting departments of British companies to suggest that they could not do as well as the Americans. For our part we reiterate our support, expressed in our note last month, of Sir John Braithwaite's plea, and applaud the Stock Exchange for again being in the van of accounting progress, as it was the years before the Companies Act of 1948, when its regulations set the pattern of the best practice in annual reports and accounts and helped to shape the Act when it finally came.

#### **Taking Anti-Evasive Action**

The special branch of the Inland Revenue engaged on the investigation of important cases of fraud is becoming increasingly successful. In 1953/4 its work led to 320 settlements and £5.8 million was recovered compared with 262 settlements for £2.8 million in the previous year. A number of the cases of the branch were for large amounts of tax evaded by undervaluation of stocks over long periods, and in the year to September 30, 1953, about a quarter of the unassessed income in settlements resulting from the investigations had been covered up by stock undervaluation. The figures are given in the report of the Comptroller and Auditor General on the Revenue Department's Appropriations Accounts, 1953/54.

Apart from the activities of the special branch, the campaign against fraud and evasion gathered further momentum. Including the recoveries of the branch, but excluding settlements made by local Inspectors of Taxes, 18,144 cases were settled in 1953/4, against 9,836 in the previous year and the total charges raised (including penalties) were £20.4 million against £11.0 million.

In addition, under the long-standing powers of local Inspectors to deal with back duty relating wholly to income tax on untaxed interest, allowances and the like (except for serious cases in which the penalty has to be specially considered) there were 133,757 cases, with total charges raised of £4.9 million, against 136,288, with total charges of £5.4 million in 1952/3. As in that year, the settlements largely concerned untaxed interest notified by banks, building

societies and the like under Section 29 of the Income Tax Acts, 1952 (previously Section 27 of the Finance Act, 1951). This fact lends point to the suggestion made by the Committee of Public Accounts in its third report last session that the Inland Revenue should be given by legislation discretionary power to require returns of fees and royalties paid. The committee thought that the power would not need to be universally exercised, but its existence might "not only be advantageous to the revenue, but also have a beneficial effect upon public morale, which is from time to time disturbed by reported cases of evasion of tax liability." The cross-examination by the Committee of Sir Eric Bamford, the Chairman of the Board of Inland Revenue, had shown however, that there would be much difficulty in framing a statutory definition of "fee" and he had confessed himself unenthusiastic about obtaining the power to demand returns, partly because the Inland Revenue had already as much work as it could cope with in the returns of untaxed interest and partly because it already obtained some returns of fees by voluntary arrangement with those paying them.

#### **British Partners of Accountancy Firms in South Africa**

THE PUBLIC ACCOUNTANTS and Auditors Act, which effected the registration of the accountancy profession in South Africa in 1951, prohibited firms from practising in the Union under firm names of partners who are not and have not been resident there. Section 30 of the Act, which contained the prohibition, also forbade the passing of profits from the practice of accountancy between the South African members of accountancy firms and their partners overseas. The Section was calculated to cause the disappearance in the Union of a number of well-known names of firms, mostly British, of which the chief are Deloitte, Plender, Griffiths, Annan and Co.; Peat, Marwick, Mitchell and Co.; Price Waterhouse and Co.; and Cooper Bros. However, a last minute amendment to Section 30 suspended its operation for a

period of not less than five years, on the understanding that the Minister of Finance would request the Public Accountants' and Auditors' Board "to conduct a thorough investigation into the matters dealt with under the Section referred to and to afford the interested parties every opportunity to make whatever representations they might wish."

The Board has now reported to the Minister of Finance and its report has been made public. However, the details of the report have not yet, we understand, been laid on the table of the Dominion House of Parliament and the Minister of Finance has not yet made a decision on the recommendations.

The majority of the Board is strongly of the opinion that the prohibitions in Section 30 of the Act are undesirable, and recommends their removal in an amending Act. It considers that the use in the Union of the names of overseas firms of accountants does not cause unfair competition, nor is there any case for discriminating against these firms on the ground that their names are exploited in the Union. It would be an unjustifiable deprivation of existing rights, says the report, if the Union partners of overseas firms were compelled to practise under their own or new names and, in equity, any such compulsion would have to extend to partners in Union firms as well. It seems that much of the criticism against the firms attacked by Section 30 has been made not so much because some of their partners are non-resident in the Union, but rather because the firms are large; the Board considers, however, that any alleged monopolistic tendency is not serious enough to warrant interference by legislation. Nor, it is recommended, should any firm name be compulsorily changed because there has been a change in its partners. The profits accruing to non-resident partners from practices in the Union are reported to be small in amount and normal in nature.

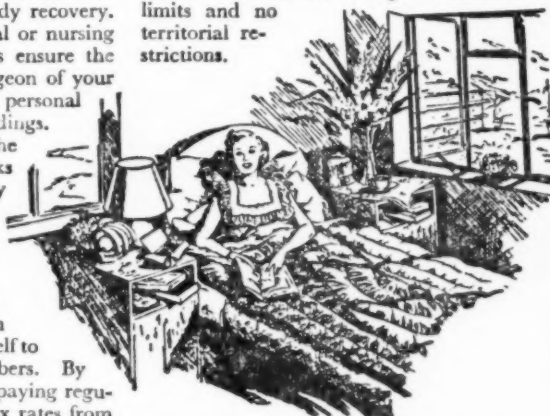
The Board recommends that non-resident partners of firms practising in the Union should be required to be registered in a special register to be



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kept by the Board. It makes this recommendation on the grounds that:

While there might probably be adequate safeguards through some societies and institutions outside the Union, there remained the possibility that all non-resident partners might not always be subject to the same standard of discipline, which would differ as between countries and bodies of accountants. All persons practising in the Union should be subject to the discipline and control applying to registered accountants and auditors under the Act. . . . In order that there should be proper jurisdiction and control over such persons, an examination into, and check upon the code of professional conduct and discipline of such bodies (bodies recognised by the Board) would be required. This procedure, by itself, seemed unsatisfactory, and it was generally accepted that it would be preferable for provision to be made in the Act for a separate register to be established for non-resident persons in partnership with Union accountants.

Another recommendation is that on the letter heading of every practising firm there should appear the names of all partners and an indication of the country in which any non-resident partner is ordinarily resident.

One member of the Board, Professor B. J. S. Wimble, C.A.(S.A.), F.S.A.A., says in a minority report—with which a civil service member of the Board, Mr M. J. Wells, expresses agreement—that “commercialism” characterises the accountancy profession. Commercialism, he contends, has resulted from the use of firm names which in time acquire a value of their own and may be quite distinct from the names of the present partners. The compulsory disclosure on letter headings of the constitution of partnerships, recommended by the majority of the Board, Professor Wimble does not consider a sufficient safeguard, for “the average investor seldom sees a letterhead and relies solely on the firm name appearing in a prospectus or in the annual accounts.” The accountancy profession is not attracting its rightful share of recruits, and the reason for this, argues Professor Wimble, is the lack of prospects resulting from the

dominance of large accountancy firms. He recommends that no registered accountant—whether on the register of Union residents or the proposed new register of non-residents—should be allowed to practise under a firm name which includes the name of anyone who is not a member of the firm or which does not include the name of at least one member of the firm normally available for consultation in the town where the office of the partnership is situated.

Mr M. J. Wells, who dissents from almost all the conclusions of the Board, recommends that the prohibition in Section 30 of the sharing of profits with non-resident partners should come into force no later than 1961.

#### Simplification in Industry

A powerful means of increasing the productivity of British industry is to reduce the types and varieties of products made by any one concern. There is no doubt that many producers in this country sacrifice output—and lose money—by producing too wide a range of articles. Far too often a few products with good profit margins have to carry the hidden losses of others which ought to be dropped.

The *British Productivity Council* has published a pamphlet setting out in everyday terms why product simplification is a good thing and how it can be carried through. The pamphlet was written by Mr Bertram White, Deputy Managing Director of *A. Boake Roberts & Co., Ltd.*, a company whose own productivity was increased through the methods described. The pamphlet is entitled *Simplification in Practice*, and can be obtained from the British Productivity Council, 21 Tothill Street, London, S.W.1, at 1s.

The benefits of simplification are summed up thus: (1) longer runs on the production line; (2) fewer changes, leading to economies in tooling and setting up; (3) more opportunities for mechanisation and special-purpose plant; (4) easier training of operatives; (5) simpler and cheaper inspection; (6) concentration of research and

technical effort, leading to more effective and quicker results; (7) capital released by reducing the amount of idle plant, tools, space, materials, components and spares; (8) simpler administration and office control; (9) improved maintenance or technical servicing of product and (10) concentration of sales and advertising effort.

The first step in obtaining these benefits is to find the facts about prime costs, turnover and gross profit on each product. The second step is to analyse the figures of turnover and gross profit to see which products should be dropped: it might be convenient to set a minimum figure of turnover, deleting from the production list all products whose turnover is below this figure. For example, the products that together account for, say 1 or 2 per cent of the total turnover—these might well be 20 per cent. or perhaps even 50 per cent. or more of the total number of products—might go out of production. The third step is to examine closely the record of each product, asking the following questions: (1) are sales static, declining or increasing? (2) does the product earn a satisfactory rate of gross profit? (3) can the product be made at a lower cost or sold at a higher price or in larger quantities? All these questions will concern different departments of the concerns—sales, production, costing, accounts—and it is suggested that a small committee from the main departments interested might be formed to give the answers.

The result of scrutiny of this kind will, says Mr White, be a list of products, possibly surprisingly long, for deletion. He then discusses how to ensure that all those concerned understand what is being done, the reasons for doing it and the likely results. Workpeople, customers and sales staff will all have to co-operate. Difficult problems will be thrown up in the factory: production schedules will have to be re-planned, plant rearranged and sometimes sold to make better use of floor space. It will have to be decided how far simplification should be pressed, for “at the opposite extreme from wasteful profusion is the danger of having all the eggs

in one basket". Further, the policy and programme of simplification must be a consistent one pursued steadily over a period that may amount to some years.

#### Mr T. H. Nicholson

It is with deep regret that we record the death on December 3 of Mr Thomas Holme Nicholson, O.B.E., F.C.A., F.S.A.A., a member of the Council of the Society of Incorporated Accountants. He was 68 years of age.

Mr Nicholson was the senior partner in Messrs. Saffery, Sons & Co., whose practice in the City of London is nearly 100 years old. He joined the staff of the firm in 1907, qualified as an Incorporated Accountant in 1919 after taking Honours in the Society's Final Examination, and in 1928 became a member of the Institute of Chartered Accountants and a partner in Messrs. Saffery, Sons & Co.

He was elected Chairman of the Incorporated Accountants' London and District Society for the year 1948-49, and remained an active member of the District Society Committee till his death.

In addition he was from 1949 a member of the Council of the Society of Incorporated Accountants, Chairman of the Library Committee and a member of other Committees.

The honour of an Officer of the Order of the British Empire was conferred upon Mr Nicholson in the New Year Honours List of 1952 for political and public services in Barnet. He was the first Chairman of the Barnet Divisional Conservative Association, and only recently resigned from that office. He held several company directorships.

For seven years during and after the war he was President of the Cumberland and Westmorland Society in London. He was a keen sportsman, and had been captain of the North London Cricket Club and later of the Barnet Cricket Club, of which at the time of his death he was President.

A memorial service took place at Holy Trinity Church, Lyonsdown, New Barnet, on December 10. The Society of Incorporated Accountants was represented by Mr Bertram

Nelson (President), Sir Richard Yeabsley (Vice-President), and Mr I. A. F. Craig (Secretary), and the Incorporated Accountants' London and District Society by the Chairman, Mr S. L. Pleasance.

#### American Views on Electronics

AT THE RECENT annual meeting of the American Institute of Accountants, the application of electronics to accounting was discussed in papers by an accountant—Mr Paul E. Hamman, C.P.A., of Detroit—and a consulting engineer—Dr Alfred N. Goldsmith, of New York.

Mr Hamman, speaking on *Electronics and the Accountant*, observed that strange things were happening in the accountancy profession: accountants were employing electronics engineers and mathematicians and learning a new and strange vocabulary, all with the object of faster or better ways of doing things in the office.

Electronic computers were not only devices for rapid arithmetic. They could receive and store a wide variety of information, rearrange and compare it, look it up quickly and write it out, and choose alternative courses of action according to the answers obtained after each of a series of operations. Machines were being developed that could read printed material. The reliability of computers had been established in use for scientific purposes, and as improvements were made it should be possible to reduce the cost.

Mechanisation in accounting systems was rendered difficult by the mass of custom and precedent and the variety of practices providing for numerous exceptions to general principles. Some changes in thinking might be required. Promising fields included the policy and premium records of insurance companies; departmental store accounts; billing customers in public utilities; and pay roll and inventory control in manufacturing. An electronic computer might be designed with sufficient flexibility to handle a variety of problems; but it was often better to design a specialised machine for a single problem. Auditors were not

likely to have any greater difficulties with electronic systems than with punched cards. Electronics and punched cards would probably be used together, being often produced by the same manufacturers.

Even the smaller computers used over 1,000 vacuum tubes, the monthly rental being \$2,000 to \$4,000. The large scale general purpose computers, with 15,000 vacuum tubes, cost \$1 million to \$2 million, or a monthly rental of \$20,000 to \$40,000. But one of these might do the work of 100 to 300 clerks. Initial installations now taking place would be watched with interest. It was estimated that twelve to fifteen people, working in two shifts, would be directly engaged in operating a large computer: this included three to five full-time maintenance engineers. Preparation for its use was a major project, requiring twenty-five to thirty-five man-years. It would be a year or two years from the first consideration of a computer to the start of its operation.

Practising accountants, concluded Mr Hamman, could contribute much to the improvement and design of methods of using the new equipment.

Dr Alfred N. Goldsmith, in his paper *The Electronic Industry—Present and Future*, spoke of uses of electronics as an extension or expansion of the senses of man, by amplifying sound and light, as in public address systems over large areas, television, hearing aids, and microscopes. Other applications were in substitution for human action, as in controlling devices of all kinds.

The compilation of some actuarial tables took 1,443 man-hours and 104 hours of computer time, at a total cost of \$15,000, whereas human calculators would have required 28,000 man-hours at a cost of \$200,000.

Possible future developments might include precise prediction of weather, a device for guiding the blind, and electronic air conditioners.

The use of electronic computers for human and commercial problems was far more difficult than for scientific or technical matters. Human behaviour was so complex that statisticians, accountants and "business analysts" would remain for the



foreseeable future masters of their professions, and the electronic machine would be no substitute for them but only their convenient and reliable servant.

### "Long-Form Reports"

Another valuable paper read at the annual meeting of the American Institute was *Long-Form Reports* by Mr John C. Martin, C.P.A. The reports which in this country are described as reports to shareholders and reports to directors, respectively, are described in the United States as "short-form reports" and "long-form reports." In general layout neither form of report shows much difference between the two countries, though it may be that detailed reports to directors are less common here than they are there.

Perhaps the greatest difference is in the stress laid in American reports on providing information necessary for the use of "credit men" or, as we would say, for "bank credit purposes." It almost shocks the British accountant to see these requirements put in the foreground before any consideration is given to what the client needs for his own purposes. We are told that the credit men want financial history, comparisons, analyses and descriptions of practically "every balance sheet item" and considerable detail is given of matters which must be covered for them in the long-form report.

As in British practice, a good deal of the space in the long-form report, when the accountant finally comes to consider his client's needs, is devoted to detail of the items of the trading and profit and loss account and comparisons with past periods.

Probably Mr Martin's statement that these reports are chiefly useful to the small and medium-size business is applicable also on this side of the Atlantic. The very large organisations have their own professional staff, who can provide the management with the information, which would otherwise be contained in long-form reports, more promptly than the professional accountant is able to supply it.

Much of the information which in

this paper it is recommended that American accountants should give in the long-form report is prescribed in the Companies Act of 1948 as mandatory upon the British accountant to provide. Americans are also accustomed to give much information about audit procedure, which in British practice it is unnecessary to give because the Act and the decided cases are sufficient indication of the auditor's duty.

### Cuts in Housing Subsidies in Northern Ireland

Following the reductions in the housing subsidies in Great Britain (see ACCOUNTANCY for August, 1954, pages 291-2), the subsidies payable by the Government and local authorities in Northern Ireland are to be cut from March 1 next. The Government will pay £33 16s annually for sixty years on a four-room house measuring more than 800 square feet, compared with £42 5s hitherto. The annual contribution from the local authority goes down from £14 5s to £11 4s. For five-room houses of more than 875 square feet, the Government subsidy will be reduced from £46 15s to £37 4s a year and that of the local authority from £15 10s to £12 8s a year.

Flats are to be subsidised by a Government contribution of £30 annually and a contribution from the local authority of £10 annually for sixty years. There has so far been no subsidy for flats.

The subsidies are higher than those payable in Great Britain, but the contributions previously payable are reduced more drastically.

### Two New Professorships in Accounting

The electors to the P. D. Leake Professorship of Finance and Accounting in the University of Cambridge have elected to the Chair Mr J. R. N. Stone, C.B.E., M.A., Fellow of King's College, Cambridge. Mr Stone will hold the Professorship from July 1, 1955, and will resign his present office of Director of the Department of Applied Economics in Cambridge University.

We offer our cordial congratulations to Mr Stone, whose name is already well known to our readers. He is an honorary member of the Society of Incorporated Accountants (see ACCOUNTANCY for March, 1954, page 82). He has rendered distinguished service to the British Government and the United Nations, and his researches in social accounting and kindred subjects have led to the publication of a number of books and of contributions to *Accounting Research* and economic journals.

As announced in our issue for July, 1954 (page 265), the P. D. Leake Professorship was endowed by the Institute of Chartered Accountants in England and Wales, being financed by an annual grant from a legacy of the late Mr P. D. Leake, F.C.A.

We also have pleasure in congratulating Mr David Solomons, B.COM., A.C.A., Reader in Accounting in the University of London, who has accepted an invitation to occupy the newly established Chair of Accounting in the University of Bristol as from August 1, 1955. Many Incorporated Accountants know Mr Solomons well, not only as a writer in the journals, but also as a lecturer at the Society's university courses and at district society meetings.

### O. & M. on a Small Scale

"O. & M." is coming more and more into fashion. Private business does not say much about its Organisation and Methods work, though it is certainly important and growing; but, particularly since the startling economies promised by an O. & M. investigation in Coventry (see ACCOUNTANCY, April 1954, pages 134-5), the new techniques—some would say "old techniques under a new name"—have become much better known in local government circles. For example, a committee of the London boroughs formed to organise O. & M. work on a joint basis reported on the investigations it had conducted and specified the assignments it was willing to undertake (ACCOUNTANCY, April 1954, page 133, and October 1954, page 389). The good work of propagating O. & M., while setting it within very

necessary confines of practicality and economy, has now been carried further by Mr Raymond Nottage, Director of the *Royal Institute of Public Administration*, in a booklet entitled *Organisation and Methods in the Smaller Public Authority*. The booklet is published at 2s 6d net by the Institute at Haldane House, 76A New Cavendish Street, London, W.1.

Mr Nottage emphasises to the smaller local authorities and similar bodies that O. & M. work requires well-trained and experienced staff of good calibre, who have sufficient status to deal with senior officers without embarrassment. The really small authority is therefore best advised to hire O. & M. staff for a short period every few years. A medium-sized body may find it practicable and economical also to employ a methods officer, as is done by some of the smaller Government Departments. This officer would deal with the smaller-scale problems as they arise, but he would not do the work that would be performed by an O. & M. team.

It is suggested that a public authority with a full-time staff of 3,500 to 4,000 would have work for a unit of two full-time O. & M. officers, costing about £2,500 a year. A full-time methods officer might be introduced as an experiment in an authority with a staff numbering 1,000 to 1,500. Joint O. & M. organisations covering convenient geographical areas are recommended.

The difficulties of introducing O. & M. in local authorities spring largely from the opposition of some chief officers of departments, but this opposition would be greatly appeased if there were less fear of publicity. The report should therefore be submitted first to the responsible officer and only those points involving council policy should be brought before a committee of the authority.

Some local authorities have employed business consultants. To do so, says Mr Nottage, is probably more expensive than to set up an O. & M. service within the authority itself. Not sufficient experience has yet been obtained, he adds, to show whether the business consultant can be successful in local government.

The potential demand among smaller local authorities for O. & M. service cannot be satisfied until more trained and experienced staff are available. There is therefore need for more training. The Royal Institute of Public Administration has a three weeks' full-time course: each course is limited to fifteen students. There is, however, a waiting list for courses for 1955.

### Planning Compensation

The Town and Country Planning Act, 1954, received the Royal Assent on November 25, and has been followed by three Statutory Instruments. The first—the Town and Country Planning Act 1954 (Appointed Day) Order—has fixed January 1, 1955, as the day on which the Act comes into force. Two other Regulations (S.I. 1954 Nos. 1599 and 1600—Her Majesty's Stationery Office, 3d and 4d net) prescribe the manner in which claims are now to be made for compensation under the Act.

Where a claim arises in respect of past compulsory acquisitions at existing use value, application has to be made to the Central Land Board supported by appropriate particulars and evidence of the claim. In the case of claims established under the original 1947 Act in respect of refused planning permission, application has to be made to the Minister of Housing and Local Government.

The two Statutory Instruments referred to above set out the procedure to be adopted when making claims either to the Board or to the Ministry, and anyone studying the new planning Act is well advised to read these official regulations, which help to clarify an admittedly complicated piece of financial legislation.

It is now over seven years since compensation for loss of development rights was promised to landowners. It looks at last as if the value of the original claims can now be accurately assessed, at any rate where compulsory acquisition or some other past event has deprived owners of the full value of their land.

### St. Paul's Cathedral Appeal

The President and Council of the Society of Incorporated Accountants commend to members of the Society the nation-wide appeal by the St. Paul's Cathedral Trust for funds for the restoration and maintenance of the cathedral. The Trust is seeking to raise a capital sum of £400,000 and a continuing annual additional income of £20,000.

The history of the cathedral goes back to the seventh century. The present cathedral, built by Wren after the Great Fire of 1666, is world famous for its dignity and proportions. It escaped destruction during the war, though incendiaries on the Dome were doused only just in time and much damage resulted from two direct hits with heavy bombs. Repairs are now urgently needed to remedy not only the war damage but also the subtler dangers of peace. The existence of St. Paul's is threatened by the gradual erosion of stonework and dilapidations of all kinds.

The cathedral is known as "the parish church of the Empire." It has been associated with the celebration of great occasions, from Queen Elizabeth I's thanksgiving for the defeat of the Armada to the Silver Jubilee of King George V.

Donations should be sent to: The Dean, St. Paul's Cathedral, London, E.C.4. Subscriptions under deeds of covenant are particularly welcome; a leaflet and forms are available.

### A Novel Accounting Conference

It may well be that a number of the large industrial groups in this country hold periodical discussion meetings of their accountants, apart from meetings in the ordinary run of day-to-day business, but outsiders hardly ever hear of these gatherings, and it has certainly been unusual, if not unknown, for guests to be invited to participate. We have been informed, however, of a recent conference of the accountants of the *Brush* group of companies which was concerned with more general problems than those of the group's routine and at which a number of the speakers and participants were from outside. This is an



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interesting and promising development, which might with advantage be copied by other large concerns.

The conference was held from November 11 to 13, under the chairmanship of Mr J. M. S. Risk, B.COM., PH.D., C.A., F.C.W.A., Group Controller of Accounts of the Group. Mr A. H. I. Hearn, A.C.A., of *Imperial Chemical Industries, Ltd.*, explained the use of work study techniques in the office, and a film was shown on the application of photocopying to clerical work. Other speakers during the conference included Mr C. W. Flint, A.C.A., Chief Accountant, *East Midlands Electricity Board*; Mr Ian T. Morrow, C.A., F.C.W.A., Deputy Managing Director, *Brush Group, Ltd.*; and Mr M. Tattersfield, A.C.A., General Manager and Director, *Brush Electrical Engineering Co. Ltd.* Some valuable suggestions were made on the service given by the group's accountants to management.

Forty delegates and guests took part. The delegates included Mr G. C. W. Gardiner, A.S.A.A., and Mr B. J. M. Edmunds, A.S.A.A.

#### The Association and Absorption

An extraordinary general meeting of the *Association of Certified and Corporate Accountants*, adjourned from November 18—when the meeting was crowded out—is to be held on January 24 to consider authorising the Council to admit to membership of the Association certain selected members within the United Kingdom and Ireland of the *British Association of Accountants and Auditors*, the *Faculty of Auditors* and the *Association of International Accountants*. Some time ago forms of application were made available to the members of these three bodies. The applications then received were carefully examined by the Council of the Association, which applied stringent tests of eligibility for membership of the Association. Those joining the Association under the scheme, some of whom would be required to pass the final examination, would resign their membership of the other bodies.

This scheme of absorption has the approval of the co-ordinating com-

mittee of the profession, which has been consulted by the Association at all stages of the negotiations, and is to be regarded as an alternative to the recognition under Section 161(1) of the Companies Act, 1948—which requires the auditor of a company, other than an exempt private company, to be a member of a recognised body or to be individually authorised—of a new body of accountants which would otherwise have been formed out of those members of the British Association, the Faculty and the International Association who are regarded by the Board of Trade as individually acceptable by reason of long experience and other qualifications. The formation and recognition of such a new body would have been a retrograde step. Undoubtedly the absorption scheme offers greater advantages to the profession as a whole, especially as, if it is passed at the extraordinary general meeting of the Association, the three bodies will not, by virtue of undertakings given, be able to apply for recognition, either alone or in association with any other body, and the Board of Trade has said that it will not recognise any body formed out of their remaining members.

#### Receipt Forms on Local Authority Cheques

The proposal to dispense with endorsements on cheques, to which we devoted a leading article in our last issue (pages 446-450), has, as our article showed, given fresh life to the old issue whether the printing of receipt forms on the reverse of cheques is a desirable practice. As we also pointed out in the article, banks are now asking local authorities to give indemnities against loss when cheques have receipt forms on the reverse and these requests make it even more pertinent for an authority to decide whether it is worth having receipts on its cheques.

One point which is often made is that if the receipt on the back of a cheque is *required* to be signed, the cheque becomes a conditional order, and the banker is relieved of his responsibility under the Bills of Ex-

change Act of 1882. There is then also some question whether he is still protected under Sections 60, 80 and 82 of the Act. However, these difficulties can be avoided by making it clear on the cheque that it is *requested*, not *required*, that the receipt on the reverse be signed. Two other points, however, are much in doubt: first, whether one signature can serve the dual purpose of endorsement and receipt and, second, whether the giving of an indemnity is *ultra vires*.

The cheque with a receipt form on the back certainly has some practical advantages, as we showed in our article. Many auditors, however, regard an official receipt on the creditor's own form as more satisfactory. There is also the need to prove payment when necessary and in any legal proceedings it is doubtful whether the receipt on the back of a cheque would be acceptable without parol evidence about the debt to which it refers. If the document is not stamped, it might not be accepted for evidence at all.

However, bearing in mind the infrequency of a local authority's having to prove payment to other than its auditor, it is questionable whether the cheque-cum-receipt has net advantages for the authority over the cheque with no receipt on the reverse. An ordinary endorsed cheque, coupled with parol evidence, should suffice to prove all that needs to be proved in a legal action—and unless the District Auditor of the authority is not satisfied with an ordinary paid cheque, it may not even be worth while to follow up meticulously the return of creditors' receipts on their own forms. Apart from cheques which must be negotiable and therefore need to be issued in open form, the precaution should be taken of crossing cheques over a certain value and marking them "Not Negotiable—Account Payee Only." Cheques which must be negotiable may include those for salaries and pensions that cannot be paid by the bank credit system; but open cheques need only be given when asked for, and even then signatures for the cheques can be obtained.

On balance, then, and especially if a bank is adamant in its demand for



an indemnity, the best course for a local authority may well be to scrap the practice of having receipts on the reverse of its cheques.

#### The Family Welfare Association— Its Services for the Accountant

The *Family Welfare Association*, formerly known as the *Charity Organisation Society*, staffs the Citizens' Advice Bureaux in London; runs Legal Advice Centres and family discussion bureaux to deal with marriage welfare problems; administers pensions of a charitable nature; trains large numbers of social workers; helps in placing old people in homes; acts as the British Branch of the International Social Service; and conducts research into problem families.

The Association can also be of assistance to the accountant, in practice or in industry. Its information service can provide advice about charities and charitable trusts—particularly for clients who are giving money, but also, on the isolated occasion, for the person, whether a client or some other, who is seeking a grant from a charitable organisation. The administration of small trusts, or of special funds which have been settled or given for charitable purposes, is sometimes for one reason or another unsuitable for retention in a professional office; in such circumstances, the Association will act as administrator. The expense of setting up a trust for clients who wish to make relatively small gifts for charity may be avoided by entrusting the monies to the Association, which will set up a special fund for the desired purpose. An accountant may sometimes need to assess the needs either of people who have applied to him for money in his capacity as trustee or of friends or relatives who have asked a client for money: the professional social workers of the Association will act as assessors on behalf of the accountant. The Association also provides a channel through which certain problems of staff welfare may be settled, when it is unsuitable or undesirable for the employer to intervene himself. It also

provides a means of giving charitable help anonymously.

The services of the Association are available to accountants without charge, but those who use its facilities may further its work by making a donation or subscribing annually.

#### Mr F. R. M. de Paula

We learned with much regret of the death on December 13 of Mr F. R. M. de Paula, C.B.E., O.B.E.(Mil.), F.C.A.

Frederic Rudolf Mackley de Paula, who was born in 1882, has a secure place among the great men of the accountancy profession. Perhaps his best known achievement is his reorganisation of the accounting and budgetary systems of the *Dunlop Rubber Company* after the disasters of 1922—work which contributed in large measure to the success of the company in the next two decades. During this time, however, Mr de Paula carried his zeal for informative accounts and enlightened accounting far beyond the bounds of his company. Using the Dunlop accounts as a model, he struck out boldly for a degree of disclosure in accounts far in advance of that practised by almost all his contemporaries. Most of his reforms have since been made obligatory practice by the Companies Act of 1948, of which he must be recognised as one of the early architects. He was equally gifted in the theory of his subject, writing and lecturing widely. His *Principles of Auditing* is a standard work. From 1926 to 1929 he was Ernest Cassel Professor of Accounting in the University of London. He was a valued contributor to this journal before the war.

Mr de Paula became an Associate of the Institute of Chartered Accountants in 1906, a Fellow in 1915, and was a member of the Council from 1943 to 1950. He was in practice during the first part of his career, did valuable war service in each of the world wars, and after leaving Dunlop in 1941 had varied industrial experience. He was a member of a number of Government committees of inquiry.

Mr de Paula had an engaging and

cheerful personality. Warm-hearted and companionable, he had a large number of friends among Incorporated Accountants. The profession of accountancy will greatly miss him.

## Shorter Notes

#### The Accountants' Christian Fellowship

There were large attendances at the autumn meetings arranged by the Accountants' Christian Fellowship, the programme of which was published in *ACCOUNTANCY* for September 1954, on page 331. The Committee has now arranged the following further series:

*January 19.*—Speaker: The Right Hon. Lord Justice Denning. Hall of the Institute of Chartered Accountants, Moorgate Place, London, E.C.2, at 6 p.m.

*February 24.*—Annual general meeting, and film *The Stones Cry Out*. Hall of the Institute of Chartered Accountants, Moorgate Place, E.C.2, at 6 p.m.

*March 24.*—Speaker: Mr Cecil J. Allen, M.INST.T., A.I.LOCO.E. Caxton Hall, Westminster, S.W.1, at 6 p.m.

The Chairman of the Fellowship is Mr William R. Booth, A.C.A., A.S.A.A., the Hon. Treasurer, Mr John Waldron, A.C.A., and the Hon. Secretary, Mr N. Bruce Jones, C.A., 7A Princes Rise, Lewisham, London, S.E.13.

#### Underpaid P.A.Y.E. Tax

Of some twenty million employees whose tax was paid by P.A.Y.E., about three million assessments were made for 1953/4 and on rather more than a million of these there were underpayments, aggregating nearly £20.5 million. Part of this amount will be collected direct by Collectors but more of it will be obtained through employers by adjusting code numbers in or after 1954/5.

#### Growing Use of Replacement Costs

There have been two indications of the increasing adoption of the replacement costs basis—both occurring in official circles. The *Iron and Steel Board* has announced that depreciation is to be so computed in drawing up prices of iron and steel products. The commercial accounts of the Post Office for 1953/54 make it clear that considerable sums have been reserved out of profits towards replacing telephone assets: this does not however, amount to replacement costs accounting, because the sums are not sufficient to replace the assets and have been appropriated from the surplus, not deducted before striking it.

# EDITORIAL

## Pensions at Bargain Rates

"NINEPENCE for fourpence" it was said of the State insurance scheme created by Lloyd George 43 years ago. "At least thirteen shillings, and possibly very much more, for six and fourpence" it might be said, less succinctly but with the emphasis of bigger figures, of the scheme revised by Parliament last month. The Government spokesmen in the House of Commons debate were certainly justified in calling National Insurance a great bargain for the citizen. Even after the increase of rather less than a shilling in contributions, the bargain is a better one than it was before the new Act. Such good value is the insured person receiving, in fact, that the State is now incurring, for future subventions to the National Insurance scheme, liabilities amounting to the enormous total of £15,700 million, or about three-fifths of the official National Debt. In particular, pensions—"retirement benefits" as they are called in the jargon—are being obtained at very cheap rates. Already of the £350 million paid out every year to pensioners, nineteen-twentieths was paid in by someone else; not only have a very large number of existing pensioners contributed towards their pensions much less than a shilling in the pound, but also a very large number of future pensioners are obtaining equally favourable rates.

In these circumstances, the increases in contributions passed by Parliament were surely to be criticised, if they were criticised at all, not for being too large but for being too modest. There was much discussion about whether the Exchequer supplement to the contributions of an employed man or woman should remain, as the National Insurance Bill before Parliament proposed, at one-seventh of the total contributions, or should be restored to the proportion of one-fifth which obtained before 1951. This discussion was hardly in place. Mainly because unemployment has been much less than was estimated when the comprehensive National Insurance scheme was set up six and a half years ago, it happens that up to now the scheme has not actually incurred a deficit. That is to say, the contributions received from insured persons and employers, with interest earned upon them, have in each year sufficed, along with the Exchequer supplements to the contributions, which also have earned interest, to meet the benefits paid out. The annual payment by the State by way of its supplement to the contributions has, therefore, been its only subvention to the scheme—and it has been a relatively small subvention, amounting to some £70 million in the last financial year. But this tolerable situation is now rapidly changing. The outgoings, under the head of pensions particularly, are fast increasing—not only because of larger rates of benefit but also because of the growth in the number of pensioners. Thus, by 1956-57, the first full year of the new rates, the supplements to contributions will be around £90 million—they will then remain around this figure,

within a million or two, for the next generation at least—and the deficit will in that year be £5 million, making the necessary total payment by the State £95 million. But a year later, the total payment will be £147 million; by 1959-60 it will have risen to £236 million; by 1964-65 to £311 million; and by 1979-80, £517 million. With emerging liabilities of these dimensions, which have to be met out of taxation, it would have been quite irresponsible not to have raised contributions last month.

A facile argument is put forward that there is no harm done, but it is even an advantage, if the scheme is financed from general taxation rather than from contributions. The argument completely ignores the serious economic and financial effects of high taxation. It is imperative, in the interests of the national output, to reduce the level of taxes, rather than to contemplate increasing it. Moreover, the sums now garnered by the State as National Insurance contributions are economically a part of the total of national savings—even though hypothecated, so to speak, for benefits—and there is nothing more likely than that a "switch" from contributions to general taxation would reduce that total, by cutting back hard on the savings, now encouragingly large, which people are making voluntarily.

The same necessity to do nothing to imperil the volume of savings, the recovery of which is a major reason for the resilience of the British economy in recent times, makes it desirable to encourage to the utmost private pension schemes, apart entirely from other compelling reasons why they should be fostered. We must, therefore, regard as unfortunate and unconvincing the main recommendations on the private schemes put forward by the Phillips committee on the Economic and Financial Problems of the Provision for Old Age, which reported almost simultaneously with the appearance of the National Insurance Bill last month. The Committee rightly pointed to the bargain rates which private pension schemes, like the State scheme (but in much less marked degree) can offer. The private schemes can give this good value because of the tax reliefs which they enjoy, amounting to some £100 million a year. The Committee proposed that if it were to continue to receive this State encouragement a pension scheme should allow no earlier retirement ages than the State scheme and should not provide benefits which, with the State pensions, would give the pensioner more than two-thirds of his income in the last year he worked. The committee was rightly concerned at the very large sums which from the private and State schemes combined will have increasingly to be paid over in the support of old people, but the restrictive conditions which it suggested to help limit those sums would also have an adverse effect upon the volume of savings through superannuation contributions and, if for that reason alone, will not, it is to be hoped, be accepted.

# The Theory of Auditing

By E. H. DAVISON, A.C.A.

THE PRACTICE OF AUDITING is of great antiquity; its name alone shows that it was accepted usage before the time when business records could normally be written and read.

The necessity for auditing sprang from the function of stewardship, which again arose from the delegation of business affairs. It is probable that the conduct of such matters has not intrinsically changed for many thousands of years, though methods have varied with changes in monetary practice, in international trade and international barriers to trade, and more particularly, in the present context, statutes and practices governing the financing of business enterprises.

Irrespective of the precise legal relationship between them, there are two basic assurances which the proprietor should have regarding his steward. These are that the steward should be (a) honest and (b) efficient. A complete audit should be designed to verify these two equally important aspects of stewardship.

In some matters honesty and efficiency overlap; personal expenses are examples of outlays which, if they are efficiently incurred, are honestly incurred from the point of view of the proprietors, though possibly not from the point of view of the law.

Without going too deeply into narrow issues, it can be stated that the work of an audit should be directed to verifying that from the point of view of the proprietors the stewards have honestly and efficiently discharged their tasks.

It is clear, however, that these main objectives have to some extent been obscured by more recent developments, recent, that is, by comparison with auditing progress through the ages. There are two influences on the practice of auditing which today largely govern, not only the practice, but the whole theory of the audit; the first of these is the statute law, and the second is the preoccupation of the auditor with self-protection. It is perhaps hardly to be wondered at, in the present state of the legal definition of the relationship between proprietor, steward, and auditor, that the audit should be regarded much in the light of a legal ritual in which the auditor must be careful to watch his step, and that the auditor's work on the efficiency aspect of business should have gone by default. So far, in fact, do modern company accounts disregard the question of efficiency that, far even from permitting the proprietor to exercise his own judgment on the efficiency of his stewards, virtually no information is made available to him to enable that judgment to be made. No

doubt this is because the law, much and rightly preoccupied with honesty, cannot define or be concerned with efficiency.

The results of the impact of law and legal definitions on accounts of stewardship may therefore be summed up as:

- (a) a preoccupation with legal form (rather than useful content)
- (b) a concentration on honest, and a disregard of efficient, stewardship.

The work of the auditor is likewise influenced, and further, in weaving his way through the intricacies of his work, now changed from a commercial problem into a legal formula, he is concerned to a very great extent with protecting himself against any legal consequences of his actions or omissions of which he may not be fully aware until they come to be judged in a Court of law.

This very general survey of the past and present purposes of the audit leads to some reflections on more limited issues. It is not possible, in a short treatment, to exhaust the subject but there are possibilities of further discussion and argument on some of the main questions with which any persons interested in a satisfactory theory and practice of auditing must certainly be faced. These more limited issues are below classified under four headings:

- (a) the audit of honesty
- (b) the audit of efficiency
- (c) the audit of legality
- (d) the preoccupation with self-protection.

## The Audit of Honesty

This aspect of auditing work is that which is concerned, at the one end, with defalcation and petty misfeasance, and at the other with protection of the public against major frauds. Highly effective as is the work of the auditor, buttressed by statutory backing, in reducing the incidence of major frauds, it is doubtful whether the annual audit is much protection against smaller crimes of pilferage and misappropriation. It would be interesting to know what proportion of these smaller crimes is brought to light as the result of the work of the professional auditor and what proportion as a result of internal checks. Even so, a great weight of auditing work is thrown into petty tests and checks, many of which may be very inefficient guards against the crimes they are designed to prevent.

Audit work of this kind is largely a question of psychology, involving the decision who is to be trusted and who not. Psychology may be, and, as some think, is, a highly speculative science at best, but it may be no more speculative than an arbitrary "test" of the books, and will probably be less expensive in time and money.

This article is a shortened paraphrase of two talks given by Mr Davison at a seminar for students held at Incorporated Accountants' Hall on July 8 and 15, 1954.



In any event, and particularly with the annual audit, too much time elapses between the auditor's visits to exert more than a small moral effect; the possibility of being found out is obviously not a sufficient deterrent. The main safeguard against dishonesty is, and must always be, an adequate system of internal check, allied, in the large companies, with a constant internal audit, and it is to the adequacy of internal checks that the work of both the outside auditor and the internal auditor should mostly be directed. If the auditor is completely satisfied with the system of internal check, not much is to be gained by any detailed audit work on his part, and it is difficult to see, if the auditor has properly discharged his duty in examining the internal check, how the interests of the proprietor would be damaged by the fact that the auditor omitted to do any detailed audit work himself.

This peculiarity of the professional auditor (that he must do the work himself) is even more marked in his relations with internal audit staff. The careful and continued efforts to draw distinctions between the work of the "inside" and "outside" auditor are unnecessary if the "outside" auditor is able to satisfy himself that the "inside" auditor has a proper schedule of work, is qualified to carry it out, and is permitted to do so. If the "outside" auditor is satisfied on these points he need have no more anxiety in proceeding to sign his report to the proprietors than if he had the same assurances from his own audit staff. Indeed in relation to some matters in which technical knowledge is required (for example, the valuation and verification of stock) he may rightfully have less anxiety.

#### **The Audit of Efficiency**

This important aspect of the auditor's work goes largely by default, since, as stated above, the auditor's work is mainly legal in character, and the law has not so far concerned itself with business efficiency (except in relation to farming).

Even though the auditor regards it as being outside his sphere to comment on any aspect of a company's efficiency in the conduct of its affairs, it might appear reasonable to expect him to take a serious interest in ensuring that the proprietors are able to form their own opinions on the matter.

The obvious and easiest way in which the proprietor assures himself of the competence with which a business is administered is by comparing the return with the investment. The ordinary shareholder probably visualises "return" purely in terms of realised dividends and the "investment" in terms of what he has paid for his shares.

This rough and ready rule may suffice for many practical purposes, but may leave too many things out of account, such as the possibility that the shareholder may have paid too much, or too little, for his shares, that issued capital may be more, or less, than the capital employed in the business, and that the profits out of which dividends are paid may, in real terms, either exceed or be less than the dividends. With all these unknowns (few of which are revealed in published accounts) judgment of

the real rate of return on investment is impossible, and, if attempted, dangerous.

It is not impossible to remedy the position, and indeed to show "a true and fair view of the state of affairs" a remedy seems necessary, but the auditor neither in theory nor in practice seems to regard this remedial action as part of his function. Problems of revaluation, the fair assessment of necessary appropriations, a uniform understanding and clear definition of "profit," and the relegation of the statement of nominal capital to a position in the accounts more in keeping with its importance must all be tackled if the auditor is adequately to perform his duty to his principals in this respect.

In dealing with efficiency in the conduct of business affairs the auditor is now at a disadvantage. His preponderance of legal, and lack of business, experience disqualifies him from pronouncing on, for instance, wasteful expenditure or unremunerative projects. In the fields of government and local authority expenditure many matters of this kind are brought out for judgment into the light of day. On the other hand, it may well be questioned whether business enterprise would be fostered by the possibility that any decision, if it proved to be wrong, would be recorded as a black mark.

The proprietor is, however, entitled to know whether his stewards are performing their functions efficiently, and a study of auditing theory and practice with a view to evolving methods of giving him this information would seem to be fully justified.

#### **The Audit of Legality**

The change of emphasis in the viewpoint of the auditor, from being an expert in figures with a knowledge of the law to being a lawyer with a flair for figures, has produced a change of emphasis in his work. Largely as a result of the 1948 Companies Act, much more time is now spent in ensuring that the form of the accounts complies with the law, even in its most irritating and inessential details.

This emphasis on legal minutiae is producing a ritualistic approach to accounting, which is now responsible for issuing statements on "profits" and "affairs" which are far above the understanding of the proprietors to whom they are addressed. It is for directors (as trustees) and auditors as servants of the proprietors to see that their reports are capable of being understood, or, at least, only with difficulty misunderstood. When they are studied at all, it would be fair to suggest that they are now frequently misunderstood.

The overriding provisions of Section 149 of the 1948 Act require careful study and observance, particularly in the light of the possibility that adherence in detail to all the other provisions of the Act may produce (and indeed almost always does produce) a misty obscurity which vitiates a true and fair view.

In considering his duty in this way it would be reasonable to ask the auditor to approach the matter on his own responsibility as a trained and qualified accountant, and not to rely too heavily on the backing of the legal profession.

### The Preoccupation with Self-protection

The taking of legal advice on accounting matters is one way in which the auditor seeks to protect himself against any consequences arising out of an adverse legal decision on a judgment of his actions. There are, as mentioned above, other ways, the most obvious of which is to obtain "cover" by securing certificates from directors and management to support valuations of stock, distinctions between capital and revenue expenditure, and so on.

The practice of obtaining certificates is of doubtful value, both to the proprietors, who might fairly expect the auditor to rely on his own judgment, and even to the auditor himself, who, in some cases which have come before the Courts, has appeared to obtain certificates, or at least assurances, of no value. These, far from affording him protection, have in some cases seriously misled him. This is perhaps no part of auditing theory, but it would

seem necessary to examine the practice and consider who may be the proper persons to provide certificates of this kind if such certificates are necessary for any purpose.

From the point of view of the ethics of auditing, however, the question does arise how far the proprietors should be expected to go in paying that part of the audit fees which is earned in providing protection, not for the proprietors, but for the auditor. The cost of his protection is quite material, ranging from the expense involved in a legalistic approach to the accounts to the collection of a considerable volume of schedules and papers, reflecting all aspects of the accounts, for the auditor's own custody. The auditor's approach to his duties should be determined in the light of a careful review of the cumulative effect of all such personal considerations on his professional relations with his clients.

## Loans for Homes A Comparison of Methods

[CONTRIBUTED]

BROADLY SPEAKING, the prospective mortgagor has two main sources to tap for financial accommodation. These sources can be classified into (a) those available to special or privileged classes and (b) those applicable more generally.

The special or privileged classes may be able to obtain accommodation from friends or relatives. The mortgage and its terms may be tailored to suit the borrower and the rate of interest payable may be below the current outside rate. A growing number of employers—particularly large companies—are also joining the ranks of mortgagees; their terms and interest rates vary considerably. Sometimes interest-free loans are made with deferred repayments; at the other extreme the terms are almost on a par with those of the specialist building societies. One possible disadvantage of employers' mortgages is presented by the problem of repayment following the employee's resignation, retirement or dismissal.

Bank loans are a method of obtaining temporary cover, but banks do not ordinarily compete for private house mortgage business. Local authorities are empowered but not compelled to grant mortgages under various statutes. The advances, however, are generally less than obtainable elsewhere, although interest charges are usually lower. The detailed arrangements vary among the various local authorities but generally allow for repayment by fixed instalments.

The general sources of house purchase finance centre

around the building societies, "aided and abetted" by life assurance offices, but some friendly societies also grant mortgages. A building society mortgage is mainly attractive on account of its flexibility, relative simplicity and reasonably low interest charges. However, among the building societies there are minor differences in terms, for example, on future variations of interest; methods of calculating interest; amounts of advances, redemption facilities and charges; mortgage survey and legal charges payable by the borrower; and membership qualification shares.

Besides the simple mortgage the building societies provide at little extra cost further facilities in collaboration with life offices, with the object of giving the mortgagor "life cover" equal to the loan outstanding. These facilities fall into two categories. Firstly, there is the simple mortgage plus life cover paid for either by a single premium added to and forming part of the advance repayable over its term or by premiums spread over a number of years and payable along with the normal mortgage repayments. Secondly, there is the endowment assurance plan; this is radically different from the simple mortgage-cum-life cover. By it the mortgagor in effect repays the mortgage in life assurance premiums but interest is payable to the building society on the total loan throughout its term.

Some life assurance societies offer their own house purchase schemes. Broadly, these follow the endowment assurance plan of the building societies, but there are minor variations in, for example, the amounts of advances, the rates and future fluctuations in rates of interest, and the incidence of legal and survey charges. Some life offices issue mortgage protection policies independently of building societies and other mortgagees.

Some building societies restrict the choice of life offices for their life assurance endowment schemes and others express a preference for a particular office. When he can select the assurance office the discriminating borrower will consider not only the gross premium payable



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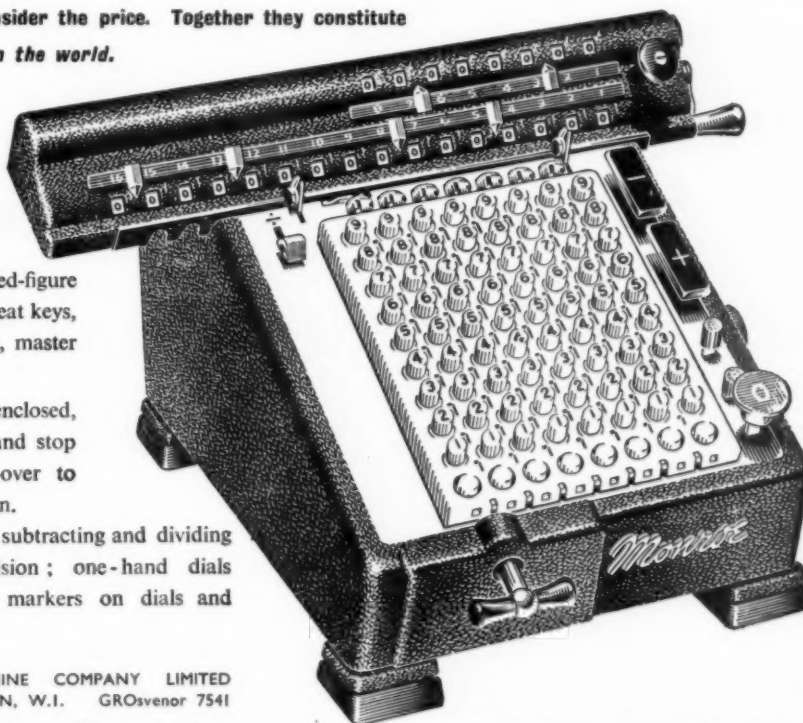
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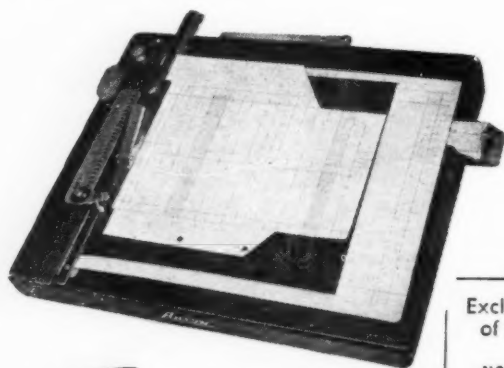
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but also the surrender values at various dates during the currency of the policy and the relative advantages of "with profits" and "without profits" policies. In assessing the merits of a "with profits" policy, he should study past and future potential bonuses; the method of calculating bonuses, for example, whether in proportion to premiums paid or according to the sum assured and whether simple or compound; and the cash equivalents.

The gross cost of these various methods of raising the funds for house purchase varies considerably, but the comparison of the net cost is affected by income tax reliefs: the true cost will vary with the borrower's personal circumstances and with future income tax rates—difficult factors to forecast.

In calculating income tax relief, moreover, it must be

remembered that the interest portions of the repayments on simple building society mortgages diminish as the years pass. This may restrict the relief if the borrower's taxable income is lower in the early years of the loan.

In the table that follows, a comparison is made of the gross cost of a mortgage of £1,000 at  $4\frac{1}{2}$  per cent per annum raised by a mortgagor aged thirty-five on his next birthday, the various methods, and the net cost with income tax relief at various rates. The figures are based upon quotations from representative building societies and life offices, but particular societies and offices may offer slightly different rates. In particular, it should be noted that one large building society has recently reduced its rate for advances to 4 per cent, but it has acted in isolation from the other large societies.

## ILLUSTRATION

Term in Years	Source of Mortgage	Estimated Costs First Year Net—after income tax reliefs at				Variations in Annual Costs	Estimated Total Costs Net—after income tax reliefs at				
		Gross	5s	7s	9s		Gross	5s	7s	9s	
		£	£	£	£		£	£	£	£	
20	Building society mortgage	77	66	61	(a)57	(i) Other things being equal net annual cost increases due to reductions in interest portions of repayments.	1,540	1,415	1,365	(b)1,315	
25	Building society mortgage	68	57	52	48		1,688	1,530	1,466	1,403	
20	Building society mortgage and single premium policy	84	64	56	48	(i) Do.	1,671	1,519	1,462	(d)1,406	
						(ii) Net cost first year is after life assurance relief on single premium abated to seven per cent of sum assured.					
20	Building society mortgage and mortgage protection policy	86	74	69	64	(i) Do.	1,625	1,491	1,438	(c)1,385	
						(ii) After x years gross and annual costs reduced by curtailment of premium.					
20	Building society mortgage—	With profits	99	83	75	(e)69	(iii) Other things being equal costs remain fixed, subject to reversionary bonuses being cashed.	1,985	1,382	1,260	(f)1,139
25	Endowment plan		89	74	67	61		2,225	1,497	1,355	1,214
20	Building society mortgage—	Without profits	92	76	69	64		1,837	1,548	1,433	1,317
25	Endowment plan		82	67	61	55		2,050	1,715	1,580	1,446

Mortgage—£1,000 at  $4\frac{1}{2}$  per cent.

Mortgagor at commencement—Age 35 next birthday.

All costs exclude: (i) Survey and legal charges; (ii) Redemption charges; (iii) Commissions or special discounts.

## Notes to Illustration:

(a) Fixed gross annual cost .. ..	£77	(b) Gross cost— $20 \times £77$ .. ..	£1,540	(c) Net cost as (b) .. ..	£1,315
First year—interest portion £45		Less: Capital .. ..	1,000	Premiums—say $10 \times £8$ 10s .. ..	85
(Assumed covered by net annual value (N.A.V.) and other unearned income)		Interest portion .. ..	£540	Life assurance relief: $2/5$ ths $\times$ £85 at 9s .. ..	15
Income tax relief at 9s .. ..	£20	Relieved against unearned income say N.A.V. $\times$ 20 = £360 at 9s (Assuming no maintenance claim restriction)	162		70
	20	Balance against earned income: $7/9$ ths $\times$ £180 at 9s .. ..	63		
	£57		£1,315		
(If interest payable from earned income, tax relief becomes: $7/9$ ths $\times$ 45 at 9s = £16)					
(d) Gross cost .. ..	£1,671	(e) Fixed gross annual cost: Premiums .. ..	£54 5s	(f) Gross cost ( $20 \times £99$ 5s) .. ..	£1,985
Less: Capital .. ..	1,085	Interest .. ..	45	Life assurance relief .. ..	£195
Interest portion .. ..	£586	Life assurance relief: $2/5$ ths $\times$ £54 at 9s .. ..	10	Interest against unearned income: £360 at 9s .. ..	£162
Against unearned income .. ..	162	Interest relief against unearned income .. ..	20	Interest against earned income: $7/9$ ths $\times$ £540 at 9s .. ..	189
Against earned income .. ..	79			Estimated reversionary bonuses .. ..	300
	£1,430		30		846
Life assurance relief .. ..	14		£69		£1,139
Possible refund of premiums .. ..	10				
	24				
	£1,406				



# Accountants' Reports for Prospectuses

IN PREPARING a report of the profits or losses of a company or a group of companies for the purpose of a prospectus it is often necessary to make adjustments to the profits or losses shown by the audited accounts. Neither Appendix 34 of the Rules of the London Stock Exchange nor the Companies Act, 1948, lays down the adjustments to be made, but Appendix 34 requires that the auditors or accountants shall submit a written statement to the Share and Loan Department of the London Stock Exchange, giving the adjustments made and the reasons for them. In October 1948, the Share and Loan Department issued a memorandum settling the design in which the "written statement" has to be submitted. This memorandum was reproduced in *Accounting Practices Relating to Prospectuses*, by Professor F. Sewell Bray and Thomas Kenney (No. 18 in the Practice Note Series published by the Incorporated Accountants' Research Committee). The Share and Loan Department has now issued a revision of its earlier memorandum and it is reproduced at the end of this article, which discusses the changes and additions now made. The new memorandum is here referred to as the "1954 memorandum" and the earlier one as the "1948 memorandum."

## 1. Depreciation

The 1948 memorandum required that depreciation, amortisation and diminution in value of fixed assets should be sub-divided to show the charges (a) for which no allowance was made for taxation and (b) for which allowances were made, and the charge under (b) was to be compared with the allowances obtained on the basis laid down for profits tax. The 1954 memorandum requires—unless the items are not material factors in relation to the amount or trend of profits—that the charge should be divided as in the 1948 memorandum, but the comparison for item (b) is to be made with the

tax allowances obtained on the basis (for income tax, profits tax and the like) considered appropriate for each case. Permission is given for this information to be submitted in a supporting schedule to the statement of adjustments.

No mention is made of the manner in which initial allowances, balancing or charging allowances or investment allowances are to be dealt with in computing profits for the purpose of the report. These matters are left to the auditors or accountants to decide. In the Practice Note No. 18, already mentioned, this point is referred to as follows:

The Share and Loan Department usually enquire if the depreciation charged in stating the profits compares favourably with the allowance granted for computing tax liabilities. This opens up the question of initial allowances. The financial effect of initial allowances is to grant a greater measure of relief from taxation in the first year at the expense of a reduced allowance in subsequent years.

In the circumstances it is felt that any comparison between the depreciation charged in the accounts with that allowed for taxation should be made after wear and tear computations have been reworked to exclude initial allowances. If a company, as a matter of policy, has been following a programme of development and the expenditure is approximately much the same in each year, there may be a case for retaining the initial allowance when comparing the tax allowance with the charge against profits. The same could be said for a company which had included the initial allowance in its accounting measure of depreciation.

## 2. Submission of Statement

The 1954 memorandum requires that a draft of the "written statement" shall be submitted at least ten days prior to the date upon which it is proposed to publish the prospectus. Almost all the papers relating to a prospectus have to be submitted in draft to the Share and Loan Department

for approval, comment or amendment prior to publication, and it is only reasonable that this requirement should extend to the "written statement."

## 3. Period Covered by the Report

The Fourth Schedule to the Companies Act, 1948, requires disclosure of the profits or losses for the preceding five years. Appendix 34 requires disclosure for the preceding ten years. As a dispensation by the Share and Loan Department in special circumstances, however, disclosure may be allowed for a shorter period than ten years (and has in fact been allowed in a number of instances). It is now provided that application may be made for "the written statement"—which deals with the adjustments made for the purpose of the report—to deal with a shorter period where it is considered that inclusion of the earlier years—for the statement, as for the disclosure of profits and losses—may be misleading. It may be noted that it is the usual practice to indicate in the published report included in the prospectus whether the profits or losses for any years are exceptional, and to give the reasons for considering them as such.

## 4. Stock and Work-in-progress

It has been the invariable practice of the Share and Loan Department to request the reporting accountants to confirm in writing that stock and work-in-progress have been properly taken and valued for the period covered by the report. This question is now covered by the 1954 memorandum, which requires a letter of confirmation. In Practice Note No. 18 this point was covered by the following observation:

This can be a difficult question to answer, especially where the available stock records are only in the form of physical inventory counts unsupported by book records. Some companies do not keep stock sheets for prolonged periods, and recourse can only be had to the audit working papers. In answering the enquiry of the Share and Loan Department it is preferable to state the information available to the reporting accountants in support of the stock valuations.



### 5. Profits Tax Non-distribution Relief

The 1954 memorandum provides that in appropriate cases the "contingent" liability arising from non-distribution relief should be disclosed. It will be observed that the provision of this information is not a firm requirement but is to be given only in "appropriate cases". In the main a liability arises where there is a dividend distribution in excess of the annual profits or, in other words, where the net assets are depleted by a distribution from the profits earned in an earlier period in which non-distribution relief was obtained. The disclosure of this item as a computed liability indicates that if the whole of the divisible profits were distributed, a profits tax liability would be payable. It is appreciated that in certain cases this disclosure is relevant and may be necessary, but the majority of companies obtain a quotation on the basis of earning future profits and paying dividends from those profits with reasonable cover, and so are not involved in paying over some of the relief already obtained. If other circumstances hold, there may possibly be an effect upon the valuations of some of the assets, and disclosure would be necessary. If the liability is disclosed to indicate the position on a liquidation, then this is only part of the story, for all know that values realised on a liquidation are more often than not greatly different from book values. The aim of a report in a prospectus is to indicate profitability in the past, which unless the contrary is stated can be taken as a guide to the future, and to disclose the net asset position on a going concern basis unless otherwise mentioned.

### 6. Directors' Emoluments

Paragraph 20(V) of Appendix 34, Schedule 11, Part 2(a) requires a report by the auditors:

with respect to the aggregate emoluments paid to the directors by the company during the last period for which the accounts have been made up and the amount (if any) by which such emoluments would differ from the amounts payable under the arrangements in force at the date of the advertisement.

This disclosure is generally dealt with in a paragraph to the auditors' report for the prospectus and is an indicator of the future cost for directors' emoluments. This is especially important if new service agreements have been signed.

The 1954 memorandum mentions that the exact comparison must depend upon the circumstances of each particular case, and where appropriate the report should deal with the emoluments of those persons who are the directors at the time of the report. It is satisfactory to have this point clarified. We interpret it as meaning that if directors have retired just prior to the prospectus their remuneration is excluded in the *comparison* and, contrariwise, if new directors are elected who had previously drawn remuneration as employees, they should be included in the *comparison*.

### 7. Adequacy of Depreciation

The 1954 memorandum requires the reporting accountants to confirm that they have satisfied themselves that the provisions for depreciation charged in arriving at the adjusted profits are adequate and proper for the purpose of the report, especially having regard to (1) assets for which it has been the practice of the company to make no provision; (2) provisions for which there is no corresponding allowance for taxation, resulting in these provisions being made from taxed profits; and (3) the effect of any revaluation of fixed assets either written in or to be written in the books. This requirement should be considered in conjunction with Recommendation XIII of the Institute of Chartered Accountants in England and Wales. Paragraph 6 of this Recommendation reads:

Where a valuation of fixed assets is used by the directors in the prospectus in order to indicate the assets cover for the issue, but the valuation is not adopted for the purposes of the books and accounts:

- (a) The report should not include figures based on, or a reference to, a valuation in excess of the amounts standing in the books;
- (b) Before consenting (under Section 40, Companies Act, 1948) to the

inclusion of their report in the prospectus, the accountants should either:

- (i) Ascertain from the directors that the directors' estimates of future profits available for dividend, as shown in the prospectus, have been arrived at after appropriate deductions have been made for the profits which it will be necessary to retain as reserves (including profits set aside for the redemption of preference shares or debentures) in order to maintain the assets cover indicated in the prospectus; or
- (ii) If such deductions have not been made, satisfy themselves that the disclosure is sufficient to show how far the directors have taken this factor into account.

The general effect of the 1954 memorandum is to give official notice of some points which invariably arise in preparing a report for a prospectus and to indicate how the Share and Loan Department requires the information presented and what confirmatory letters it requires. The issue of the memorandum will be most helpful. It is a pity that it did not go further and deal with such items as the treatment of future taxation, expenses of issue, presentation of future profit estimates, and so on. Perhaps, in due time, these will be the subject of another memorandum. The 1954 memorandum is as follows:—

#### *Memorandum regarding Certificates of Profits and Net Assets for Purposes of Prospectuses, Offers for Sale and Advertised Statements.*

(1) Appendix 34\* to the rules of the Stock Exchange, London, requires, *inter alia*, that prospectuses, offers for sale and other advertised statements relating to securities in a company should include a report by the auditors of the company or by qualified accountants with respect to the profits or losses of the company for each of the ten completed financial years preceding the issue of the prospectus, offer for sale or advertised statement. A similar report has to be furnished where the proceeds of an issue of shares are to be applied directly or indirectly in the purchase of a business or

\*See Appendix 34, paragraphs 44, 67, 68, 100, 101, 127 and 128.

of shares of a company which is, or will by reason of such purchase become a subsidiary company, the report in those cases covering the business or the company concerned. If the business or company does not have audited accounts covering ten years, the period has to be restricted accordingly.

(2) Neither Appendix 34 nor the Companies Act, 1948 (hereinafter referred to as the Act) lays down the basis upon which profits or losses are to be computed. It is the practice, however, for the reporting auditor or accountant to indicate the basis which has been adopted in his report. This normally states that the profits or losses have been arrived at after charging all expenses, after dealing with such items as depreciation, amortisation, directors' remuneration, interest, etc., on defined bases, and after making such adjustments as are appropriate.

(3) Provision is also made in Appendix 34† for the submission to the Share and Loan Department of the Stock Exchange of "a written statement signed by the auditors or accountants setting out the adjustments made in the report on the profits and giving the reasons therefor." This statement has to be available for inspection by the public for a reasonable time (being not less than fourteen days) at a place in the City of London.

(4) In order that the Share and Loan Department can obtain the information it requires in sufficient detail and on a reasonably uniform basis, it is suggested that the "written statement" should be divided into two sections, as follows:

**SECTION A.** This section should begin with the net increase or decrease in the balance at credit or debit of profit and loss account as shown by comparison of the balance sheets at the beginning and end of each of the financial periods under review; there should then be shown and added to or deducted from this amount:

(i) The items which, if the provisions of the Act had been in operation in the respective periods, would in any event have had to be stated separately in the profit and loss accounts including particulars of directors' emoluments as defined by Section 196 of the Act but excluding therefrom in respect of any period to which the Act did not apply, the estimated money value of any benefits received by the directors otherwise than in cash as referred to in the said Section 196 sub-paragraph (2).

Notes should be inserted in Section A to

†See Appendix 34, paragraphs 3(e) and 7(e).

(The paragraph numbers refer to the serial numbers set out in the right-hand margin of the Appendix).

disclose any further information which would have had to be disclosed by way of note to the profit and loss accounts if the Act had been in operation.

Except in those cases where depreciation, amortisation and diminution in value of fixed assets are not material factors in relation to the amount or trend of profits, the amounts included in Section A for these items should be subdivided to show the charges (a) in respect of which no corresponding allowance was made for taxation, and (b) in respect of which allowances were made. For comparison with the latter there should be given for each period the tax allowances obtained on the basis (for example, income tax, profits tax, etc.) considered most appropriate in the particular case.

In less simple cases it may be more convenient to deal with the matter in a separate schedule containing a statement showing in columnar form for each period:

- (a) the depreciation etc. charged in the accounts (as in Section A),
  - (b) any additional charges made in arriving at the adjusted profits (as in Section B),
  - (c) the total of (a) and (b) apportioned between those amounts in respect of which corresponding taxation allowances were and were not made, and
  - (d) the amounts of the tax allowances obtained.
- (ii) Interest charges (analysed under appropriate headings) other than those payable on debentures and other fixed loans.
- (iii) Material revenue items which have been dealt with otherwise than through the profit and loss account.

The sum finally arrived at in this section would normally be the profit for the year before taking account of items which the Act requires in any event to be stated separately.

**SECTION B.** This section should commence with the final figure of profit or loss shown in Section A and should show in detail the adjustments made thereto in arriving at the profits or losses shown in the report of the auditors or accountants; the reasons for such adjustments should be given.

(5) If the company is a holding company, the "written statement" may deal with the consolidated results of the company and of its subsidiaries or with the results of separate companies or groups of companies comprising the holding company and its subsidiaries. In the latter case, a summary combining the final figures so as to arrive at those shown in the report of the auditors or accountants should be submitted.

(6) In the case of businesses with overseas interests, the basis on which overseas currencies have been dealt with should, if the accounting treatment of these matters is material, be set out in the "written statement."

(7) The "written statement," a draft

of which shall be submitted at least ten days prior to the date upon which it is proposed to publish the prospectus, offer for sale or advertisement in the Press, should be accompanied by a letter from the reporting accountants to the Share and Loan Department of the Stock Exchange which should confirm that all adjustments have been made in respect of each year under review which are appropriate for the purposes for which the report on the adjusted profits is being made and that no other adjustments have been made.

(8) Although the "written statement" is required to deal with the profits of each of the preceding ten financial years, application may be made to cover a shorter period where it is considered that inclusion of the earlier years may be misleading.

(9) There should be submitted to the Share and Loan Department of the Stock Exchange by the auditors, a letter confirming that they have satisfied themselves that stocks and work-in-progress (if any) have been properly taken and valued throughout the period covered by their report.

(10) In appropriate cases the accountants' report should deal with the "contingent" liability arising from profits tax non-distribution relief.

(11) Provision is made in Appendix 34 for the reporting accountants to deal in their report with the emoluments of the directors. The exact comparison to be given must depend upon the circumstances of each particular case, and, where appropriate, the report should deal with the emoluments of those persons who are the directors at the time of the report.

(12) The reporting accountants should submit to the Share and Loan Department of the Stock Exchange a letter confirming that they have satisfied themselves that the provisions for depreciation charged in arriving at the adjusted profits, considered in conjunction with any qualifications or notes included in their report, are adequate and proper for the purpose having regard particularly to

- (a) assets in respect of which it has been the company's practice to make no provisions for depreciation or amortisation, and
- (b) the provisions for depreciation or amortisation which must be found out of taxed profits, and
- (c) the effect of any revaluation of fixed assets either already in the company's accounts or to be incorporated therein.

## "Change Accounts"

In his second research lecture on *Accounting Dynamics*—we commented upon the first in our issue of last April (page 126)—Professor F. Sewell Bray, F.C.A., F.S.A.A., Stamp-Martin Professor of Accounting, discussed "change accounts," which show the variation in significant items between accounting dates.

One of these accounts, the "capital change account," gives saving on the one side and asset formation on the other. Professor Bray thought that the figure for inventory formation, thrown up in the account, was highly significant, especially when brought into relationship with certain other items obtained from other change accounts. For example, a dangerous situation can be created when a large investment in stocks is financed out of a future tax reserve. The variation in inventories between accounting periods should be analysed into its components—perhaps raw materials, purchased parts, manufacturing materials, work-in-progress and end-products—provided there were not too many categories for the single enterprise. In addition, the changes in inventory formation should be related to changes in gross and net outputs and in the gross profit margin, by major products; this would necessitate separate operating accounts for the main products of the enterprise.

This led Professor Bray to consider the form of the product operating account and the definitions of gross outputs, net outputs and the gross profit margin. In doing this, he gave a *pro forma* account, from which it was possible to develop a series of ratios showing the changes between accounting periods in gross output, compared with the changes between these periods in various relevant categories of direct labour, goods purchased or outside services. Similar "change ratios" could be given relating various categories of direct labour to value added or net output.

Professor Bray argued at length against admitting into valuations of

work-in-progress an element for overheads. Omitting them, the labour and direct expense contained in the valuations is known: if the change in the direct expense content is adjusted against the debit for outside services, one can arrive at a functional relationship between services consumed and gross output—and one can derive a similar relationship between labour and gross output. The study of these relationships could be advantageously pursued. But changes in gross output were also significant on their own account: since there should be a correlation between changes in stocks and changes in sales of finished goods and finished parts, and since changes of sales should be consistent with planned scales of output, there should, unless things are out of

balance, be a certain governing relationship between the rate of growth or decline in finished goods and the rate of growth or decline in sales for any given product. All changes in stocks and in work-in-progress should also ordinarily move in a certain relationship to changes in output. Deviations from any of the experienced trends would put one on inquiry. Indeed, generalising, a careful study of the changes in outputs revealed by his accounts would, said Professor Bray, lead to the immediate discovery of involuntary changes in any significant item in individual firms.

The lecture was given at Incorporated Accountants' Hall on November 16, 1954. We understand that it is to be published in full in *Accounting Research* for January, 1955.

## The Association's Jubilee

We extend our hearty congratulations to the Association of Certified and Corporate Accountants upon attaining its fiftieth anniversary. The jubilee celebrations were a succession of brilliant and well organised functions, interspersed with a few more serious sessions. Many guests attended from the British accountancy bodies, from those of numerous countries overseas, and from public, official and other professional circles.

### Thanksgiving Service

The jubilee celebrations were opened on the morning of November 30 with a service of thanksgiving and commemoration in the Royal Parish Church of St Martin's-in-the-Fields, conducted by the Rev L. M. Charles-Edwards, Chaplain to Her Majesty the Queen.

The lesson, from Chapter 10 of the Gospel of St. Luke, was read by Mr W. Macfarlane Gray, F.A.C.C.A., President of the Association.

The Rev. Charles-Edwards gave an inspiring sermon on the text:

Moreover, it is required in stewards that a man be found faithful. (*I Corinthians 2, verse 4*).

### The President's Welcoming Address

The opening session was held on the afternoon of November 30, in Church House, Westminster. The President of the Association, Mr W. Macfarlane Gray, F.A.C.C.A., was in the chair.

Mr Gray, in his address of welcome to the

large number of members and guests, said they were assembled to commemorate and celebrate the Golden Jubilee of their Association. He approached his task with a suitable sense of responsibility and he was deeply conscious that he stood there not only as Jubilee President of the Association but also as the representative—by proxy as it were—of that long line of Presidents to whose labours and ideals the Association owed so much.

They were delighted to have with them representatives of all the other recognised accountancy bodies in this country, and accounted it a great honour to entertain the representatives of the profession from overseas, some of them from as far afield as Australia and Pakistan: they would like them to know how very much they appreciated their presence, involving as it had long journeys across the seas.

The idea of their founders in forming the Association was essentially a simple one. It was that of placing an accountancy qualification within the reach of everyone with the ability and energy to acquire it, irrespective of his or her financial position. In other words their founders sought to provide equality of opportunity—a conception which was nowadays so much an accepted part of the natural order of things that its absence in any sphere was considered a matter for complaint and remedy. It was proper that it should be so, but the fact that this was now so widely recognised as an essential part of the structure of modern society said much for the foresight and intuition of their founders in so correctly anticipating the trend of public and official opinion.



It was not his intention to enlarge on the Association's struggle to its present position of parity with the other recognised bodies. There were some members there who knew more of that struggle than he did, for they took part in it. But the fruit of their labours was borne out by the fact that they were the third largest accountancy body in the country and that they enjoyed both official and professional recognition. The story of that long fight was told in *Fifty Years*,\* the short history of the Association which had just been published and which every member should read.

They could look back with deep satisfaction and pride at fifty years of solid achievement and with profound gratitude to all those whose efforts and ideals made that achievement possible. But, though they might thus take pride in their past, they must also take care that they did not dwell in it.

For the Association, as for the profession as a whole, there was the challenge of the future and—as it seemed to him—the almost limitless opportunities of yet further service to the public and the nation. But there was, if he might say so, one blot on the escutcheon and that was the regularisation of the profession itself. The ability which they had developed and perfected for handling the affairs of other people must be applied to re-organising their own and the fact that even after eighty years of discussion they had not done so was, he ventured to suggest, a reproach which the profession could not, and must not, allow to remain.

The Secretary of the Association, Mr F. Cameron Osbourn, M.B.E., B.A., LL.B., was called upon by the President to read the names of the representatives of other accountancy bodies in the United Kingdom and overseas; as he did so, they rose and were greeted with applause.

#### The Society's Congratulations

Speeches of congratulation were then delivered by some of the representatives of other bodies. Mr Bertram Nelson, J.P., F.S.A.A., President of the Society of Incorporated Accountants, said:

I have in my hand a resolution in these terms: "The Council, on behalf of members of the Society of Incorporated Accountants, extends to the President, Council and members of the Association of Certified and Corporate Accountants cordial greetings and warm congratulations on the occasion of their Golden Jubilee. The Council of the Society believes that the accountancy profession today greatly benefits from the friendly relations existing between the recognised accountancy bodies in this country and overseas. The Council congratulates the Association on the great progress which has been achieved, and sends its good wishes for the future prosperity of the

Association, its officers and its members."

A jubilee is properly an occasion for jubilation. There is, indeed, ample cause for jubilation in the achievements of the past and the promise of the future, in the remembrance of those who have served the Association and in appreciation of those who serve today. There is occasion also for happy anticipation of the excellent and most hospitable programme arranged for these celebrations. My own pleasure in being here as your guest is enhanced by the fact that, in this memorable year, you, Sir, with whom I have shared so many pleasant experiences, are in the presidential chair of the Association. I am delighted to be with you and to bring to you the good wishes of the Society.

#### Guildhall Banquet

The golden jubilee banquet was held on the evening of November 30 in Guildhall. The President, Mr W. Macfarlane Gray, F.A.C.C.A., with Mrs Macfarlane Gray, received the 700 members and guests who attended the magnificent function, and presided over it. Among the distinguished company were the Rt Hon. the Lord Mayor of London (Alderman H. W. Seymour Howard) and the Lady Mayoress, the Lord Latham, K.ST.J., J.P. (Immediate Past President of the Association), the Rt Hon. H. T. Gaitskell, P.C., C.B.E., M.P., and Mrs Gaitskell, Mr A. C. S. Meynell, F.A.C.C.A. (Vice-President of the Association) and Mrs. Meynell, and numerous eminent guests.

Lord Latham, in proposing the toast of the Rt Hon the Lord Mayor and the Corporation of London, said that they deeply appreciated the kindness of the Corporation in allowing them the use of historic Guildhall for their jubilee banquet. Its grey and stately walls symbolised the unfolding story of the lives and activities of countless throngs of men and women who had served in the imperishable City of London. With the Chairman's permission he interposed a toast to Sir Winston Churchill, whose birthday it was, and the toast was drunk with acclamation by the company.

Replying to the toast, the Lord Mayor congratulated the Association on fifty years of progress. He believed that the standard of commercial honour was nowhere in the world higher than in the United Kingdom, and this was largely due to the high ethical standard conformed to by members of the accountancy profession and their Association.

Proposing the toast of the Association, Mr Gaitskell said that those who were not members of the profession had a wholesome respect for accountants. Accountants understood matters which were quite beyond the rest of them. Some accountants, by their diligent researches into the law of taxation, caused successive Chancellors to make changes in it. In fact, they were sometimes indirectly responsible for keeping Members of Parliament up all night! The

highly organised and integrated financial, economic, industrial and fiscal system could not exist without accountants, who were highly skilled and specialised experts. But why, asked Mr Gaitskell, should there be three, or even more, bodies of professional accountants? As far as he could see, the answer was just history plus, perhaps, human frailty.

Mr W. Macfarlane Gray, F.A.C.C.A., the President, replying to the toast, said that it was within a stone's throw of Guildhall that fifty years earlier—fifty years to the very day and almost to the very hour—the Association was born. For a considerable time its headquarters had been within the City. Events had proved the founders of the Association abundantly right, for if there had been no place for such an organisation and if there were not still one, the Association could never have survived and flourished.

The Association, continued Mr Gray, was the third largest of the statutorily recognised accountancy bodies, but its journey from obscurity to this position had not been an easy one. It had been achieved by sheer hard work and perseverance in the face of strong opposition, but every professional organisation which aspired to the high *imprimatur* of official recognition must be prepared to submit to close scrutiny and to be tempered in the fire of criticism and opposition.

But all that was far behind them and one of their greatest pleasures at the jubilee celebrations was the knowledge that the representatives of their doughty opponents of twenty-five years ago were there with them.

The toast of the guests was proposed by Mr Meynell, the Vice-President of the Association, and the response was by Mr E. J. Géser, of the American Accounting Association, and Sir John Braithwaite.

#### The Next Fifty Years

At the business session held on the morning of December 1, at Church House, Westminster, Mr Roy Harrod, M.A., F.B.A., gave an address on *The Next Fifty Years*.

The title of the address, said Mr Harrod, reflected the purpose of the meeting—to celebrate the last fifty years of remarkable progress in accountancy and, in particular, by the Association. Accounting was a comparative luxury, as could be seen from the primitive state of accounting in underdeveloped countries and, even in the United Kingdom in farming. It would be extraordinarily interesting to learn more about Soviet accountancy: beneath slogans and ideologies lay the facts and problems with which accountancy dealt and these must be similar whatever the régime.

Economic science was passing from generalisations of a merely qualitative kind to the attempt to formulate quantitative laws. They required, as raw materials, figures which only the accountant could supply. There were differences in point of view. The accountant's duty was to adhere to hard facts—payments recorded or in-

\*Reviewed in ACCOUNTANCY for December, 1954, page 458.



voices in a file. The economist was more interested in motives and purposes. In recent years, the relation of depreciation allowances to inflation had been a burning question for British industry. Economists tended to wish to see the allowance on existing equipment stepped up to its replacement costs. Accountants preferred reference to the hard fact of actual recorded cost, and feared that the alternative method might lead to a piling up of hypotheticals on hypotheticals. Compromise was possible and had been adopted by some firms.

Mr Harrod said he took the view that the Inland Revenue should allow firms to choose their own rates of depreciation on various types of equipment. This could, he thought, be squared with sound accountancy and would be of immense value both in promoting the competitive efficiency of British industry and in making us less

dependent on American machinery, by providing British machine-making firms with a large enough flow of orders to justify production of various specialised types. The right rate of depreciation was purely a matter of business judgment.

Social accounting had made immense progress in the last ten years, and was of great importance for national economic policy. Here, too much estimation was involved to accord with the strict canons of accountancy proper. But this would gradually be eliminated. He would urge accountants to study these social accounts; an understanding of how the raw material which they provided was being put together, and used to shape national policy, must provoke new thought about the treatment of their own specialist problems. Let it be remembered that whether Bank Rate was raised, or new taxation levied, might well

be largely determined by what the social accounts revealed.

The President of the Association then closed the formal proceedings of the celebrations.

#### Other Social Events

Many members, guests and their ladies attended theatre matinées, a reception by the President and Mrs Macfarlane Gray in Fishmongers' Hall, and all-day visits to various places in and around London. There were also numerous small luncheon and dinner parties during the three days of the celebrations, which were brought to a close with a jubilee ball at Grosvenor House, Park Lane, from 9 p.m. to 2 a.m.

## Partnership Changes and Losses

THE COMPLICATIONS CAUSED by the Finance Acts of 1953 and 1954 are many. What follows shows a few of them.

A, B and C were in partnership until August 5, 1954, when A retired. Accounts were made up annually to October 5. Profits were shared equally after allowing for a salary of £900 a year to B and £600 a year to C. The relevant figures were as follows:

<i>Profits (P) and Losses (L) as adjusted for Income Tax—years to October 5</i>	<i>Capital Allowances available</i>
1950 P £3,700	1951–52 £400
1951 P £4,810	1952–53 £490
1952 P £3,100	1953–54 £460
1953 P £ 300	1954–55 £390
1954 L £3,600	

The computations would proceed:

<i>Assessments on A, B and C</i>			
	<i>Capital Allowances</i>	<i>Net</i>	
1951–52 .. £3,700	£400	£3,300	
1952–53 .. £4,810	£490	£4,320	
1953–54 .. £3,100	£460	£2,640	
1954–55 .. Nil		Nil	

#### *Division of Assessments*

	<i>A</i>	<i>B</i>	<i>C</i>
	£	£	£
1951–52			
Salary .. .. .	—	900	600
Balance (£3,300–£1,500)	600	600	600
	£600	£1,500	£1,200
1952–53			
Salary .. .. .	—	900	600
Balance (£4,320–£1,500)	940	940	940
	£940	£1,840	£1,540

1953–54	£	£	£
Salary .. .. .	—	900	600
Balance (£2,640–£1,500)	380	380	380
	£380	£1,280	£980

#### *Terminal Loss*

	£
Loss 6.4.54 to 5.8.54 $4/12 \times £3,600$ ..	1,200
Loss 6.10.53 to 5.4.54 $6/12 \times £3,600$ ..	1,800
	3,000
Profit 6.8.53 to 5.10.53 $2/12 \times £300$ ..	50
	£2,950

Capital allowances 6.4.54 to 5.8.54 $4/12 \times £390$ .. .. .	130
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(Those from 6.8.53 to 5.4.54 have already been used)

Terminal loss ..	£3,080
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A's share is  $\frac{1}{3}$  (£3,080 + £1,500 (salaries)) = £1,527

If A has sufficient other income he can make a claim under Section 341 of the Income Tax Act, 1952 (see below). Alternatively, he can reclaim tax on the reduction of his income by the following amounts in respect of the terminal loss:

	£
1953–54 .. .. .	380
1952–53 .. .. .	940
1951–52 .. .. .	207
	£1,527

As B and C are continuing in the business, they cannot claim relief under the terminal loss provisions of Section 18, Finance Act, 1954. Their right is to carry forward the loss and unallowed capital allowances under Section 19, Finance Act, 1953, unless they claim relief under Section 341.

The loss for the purposes of Section 341 claims would be as follows:

	£
1953-54	
6/12 × £300—6/12 × £3,600 .. ..	£1,650 loss
Shared A— $\frac{1}{3}$ (£1,650 ÷ £1,500) .. ..	£1,050 loss
B £900—£1,050 .. ..	150 loss
C £600—£1,050 .. ..	450 loss
	<u>£1,650 loss</u>
1954-55	
(to 5.8.54 when business assessed as discontinued)	
4/12 × £3,600 .. ..	£1,200 loss
Unused capital allowances 4/12 × £390	130 loss
	<u>£1,330 loss</u>
Shared A— $\frac{1}{3}$ (£1,330 ÷ £500 salaries) )	£610 loss
B £300—£610 .. ..	£310 loss
C £200—£610 .. ..	£410 loss

For carrying forward under Section 19, Finance Act, 1953, the loss would be:

Loss 6.10.53 to 5.8.54	10/12 × £3,600 = £3,000
Shared	A B C
	£ £ £
Salary .. ..	— 750 500
Balance (£3,000 ÷ £1,250)	—1,416 —1,417 —1,417
	<u>£Nil £6-67 £-917</u>

Capital allowances unallowed are treated as a loss in the period 6.4.54 to 5.8.54:

4/12 × £390 = £130
Shared—B £43 C £43

Summary: Relief available on the following amounts:

If claim under Section 341:	A	B	C
	£	£	£
1953-54 .. ..	1,050	150	450
1954-55 .. ..	610	310	410
	<u>£1,660</u>	<u>£460</u>	<u>£860</u>
If terminal loss claim under Section 18 (1954) total relieved ..	<u>£1,527</u>	—	—
If carry-forward under Section 19 (1953) ..	—	<u>£667</u>	<u>£917</u>

The loss from 6.8.54 to 5.10.54 will go into the calculation of the profit or loss from 6.8.54 to 5.4.55 for assessment on B and C equally.

It now remains to see what would be the effect of a claim under Section 19, Finance Act, 1953, for assessment as if there were no cessation on the change of ownership:

#### Assessments on A, B and C

Up to and including 1953-54, the assessments would be as above.

That for 1954-55 would be .. ..	£300
Less capital allowances .. ..	390
	<u>Nil</u>

Leaving £90 capital allowances unused.

Had there been a (net) assessment, it would have been split between A, B, and C on the one hand and B and C on the other on a time basis.

A's only remedy for the loss would be a claim under Section 341. For 1953-54, this would be computed as above. For 1954-55, however, it would be limited to:

4/12 × £3,600	£1,200
Capital allowances unused (to 5.8.54)	
4/12 × £90 .. ..	30
	<u>£1,230 loss</u>

	A	B	C
	£	£	£
Salary, four months .. ..		300	200
Balance (£1,230 ÷ £500) .. ..	—577	—577	—576
Loss on .. ..	<u>£577</u>	<u>£277</u>	<u>£376</u>

If B and C decide to carry forward their shares of loss under Section 342, as applied by Section 19, Finance Act, 1953, these would be arrived at as follows:

	A	B	C
	£	£	£
Loss to 5.8.54			
10/12 × £3,600			
£			
3,000			
* 1,250 Salary .. ..	—	750	500
£4,250 Loss .. ..	—1,417	—1,417	—1,416
Shares of loss .. ..	<u>Nil</u>	<u>667</u>	<u>916</u>
Shares of unused capital allowances £90	—	30	30
		<u>£697</u>	<u>£946</u>

A's share cannot be carried forward.

The loss from 6.8.54 to 5.10.54 would enter into the computations of the new partnership of B and C.

Had there been changes in the bases of sharing profits during the years, these would have complicated the calculations still further. Enough has been said here, however, to indicate the start of the problem!

# Taxation Notes

## Income Tax and Building Societies

The *Building Societies' Association* has published a memorandum called *The Income Tax Arrangements—1954-55*, at a price of 5s. For anyone interested in these arrangements this is an admirable production. Following a short introduction there are reproduced the provisions of Section 445 of the Income Tax Act, 1952, which give statutory effect to the arrangements. The actual arrangements for 1954-55 follow with notes on each of the clauses; not the least valuable feature is the appendix containing specimen computations. Space is provided for the insertion of subsequent amendments. It is interesting to note that the composite rate for 1954-55 is 5s 1d in the £.

## Aggregation

Non-aggregation of settled and unsettled property where the latter does not exceed £10,000 (increased from £2,000 by the Finance Act, 1954, for deaths after July 29, 1954) can make a great difference to the rate of duty payable.

Property settled by the will of the deceased is regarded as part of the unsettled property for this purpose.

### Illustration:

	£	£
Free estate .. .. .	3,000	
Gift made within five years .. .. .	600	
Policy on deceased's life kept up by him for the benefit of a donee .. .. .	1,000	4,600
Small annuity purchased by deceased for his wife, to start on his death—capital value .. .. .	800	
Three nomination policies in favour of his wife .. .. .	4,000	4,800
		9,400
Settled property under deceased's marriage settlement .. .. .	£100,000	

Had the settled property to be aggregated the first three items would be aggregated with the £100,000, giving an estate of £104,600 and estate duty payable as follows:

* £100,000 at 45 per cent .. .. .	£45,000
Excess over £100,000 .. .. .	4,600
Total duty .. .. .	£49,600

Apportioned between settled and unsettled property in the ratio 100,000: 4,600.

Non-aggregation, however, leaves the unsettled property as an estate by itself, bearing duty at 2 per cent, i.e. £92, making the total duty £45,092.

Had the settled property been £110,000, then with aggregation both settled and unsettled property would

have borne duty at 50 per cent; whereas the relief would make the duty:—

£110,000 at 50 per cent .. .. .	£55,000
£4,600 at 2 per cent .. .. .	92
	£55,092

In any event the fourth and fifth items each forms an estate by itself. The nomination policies would bear duty at one per cent.

If the unsettled property exceeds £10,000, the duty payable on it is not to exceed the amount of the excess plus the duty which would have been so payable if the unsettled property were reduced rateably by the amount of the excess. This is termed 'tapering' relief.

### Illustration:

(a) Settled property .. .. .	£45,000
(b) Free estate .. .. .	£9,000
(c) Nomination policies .. .. .	£1,500

Aggregation would make the duty payable on (a) and (b) £54,000 at 35 per cent, a total of £18,900.

Tapering relief would make the duty payable:

On (a) at 35 per cent .. .. .	£15,750
(b) Excess of (b) and (c) over £10,000 = 500	
Free estate .. .. .	£9,000

Deduct:

$$\frac{9,000}{10,500} \times £500 = 429$$

$$4 \text{ per cent on } 8,571 = 342$$

	842
Total .. .. .	£16,592

It will be seen that there is no relief for the settled property.

Since item (c) totals less than £3,000, it is exempt even if all the policies are for the benefit of one person.

## Income Transferred to Grandchildren

A grandparent may transfer investments to trustees to be held on behalf of a grandchild with the effect that the income from those investments ceases to be his and becomes that of the grandchild. The transfer of the income is also possible without the transfer of investments. This is done by means of a deed of covenant in favour of the child, or in favour of a trustee on behalf of the child, whereby the grandparent undertakes to pay to or for the child's behalf a certain sum for a period which can exceed six years. The trustee will be able to make repayment claims on behalf of the child, or if the child is earning income he may be entitled to make such claims himself. The grandparent will be allowed to deduct from his income for sur-tax purposes the gross amount payable under the covenant. This situation arises under Section 415 of the Income Tax Act, 1952, which permits the deduction of such payments under a covenant if the payment is made to an individual for his own use, or is applicable for the benefit of an individual named in the

settlement, or is applicable for the benefit of a child or children of an individual named in the settlement. The same Section provides that income from property of which the settlor has divested himself absolutely is not regarded as his for sur-tax purposes.

The settlement, of course, will not be effective for sur-tax purposes, or indeed for income tax purposes, if there is any reciprocal provision between the grandparent and the parent of the child whereby the parent of the child is making some *quid pro quo* for the payment.

Confusion seems to exist in some minds about grandchildren because of the very restrictive provisions regarding infant children of a parent. So long as an infant child is unmarried, any income which the parent has transferred to him either by means of the transfer of investments or by a deed of covenant remains for tax purposes that of the parent. It is therefore impossible to make any repayment claims on behalf of the child and the parent reaps no benefit for sur-tax purposes. Nevertheless, he will have to pay over the income under the settlement to the child or to the trustees for the child.

The only way in which a parent can save tax by means of making over income for the benefit of his child is by entering into an accumulating settlement whereby he transfers investments to trustees to be held until the child reaches twenty-one or some later age, the income in the meantime to be accumulated. Even in these circumstances, if any of the income is spent on the child during his minority then it must be treated as income of the parent at the gross equivalent of the amount spent, not exceeding, of course, the accumulated income in the settlement.

In any case where income is treated as the income of the parent then he is entitled to reclaim from the trustees of the settlement any additional income tax or sur-tax which he has had to suffer as a result of the income being treated as his.

The effect of income being treated as income of the child or grandchild is important because if the child's income in his own right exceeds £85 in the year the parent will not be entitled to the child relief. There is one minor loop-hole in that in the year in which a child is born it is possible to treat income made over to the child under either a settlement or a deed of covenant as that of the child. This operates because the Act only applies to a child who is living and under the age of twenty-one on the sixth day of April beginning the year of assessment. In the year in which the child reaches twenty-one, technically the income still remains that of the parent because the child was under twenty-one on April 6, the beginning of the year of assessment. There is, however, an Inland Revenue concession to deal with accumulating settlements on this point, whereby the income is not deemed to be that of the child in the year in which he attains twenty-one.

#### Tolley's Income Tax Charts

The 1954-55 edition of Tolley's *Chart-Manual* on income tax, sur-tax, and so on, the thirty-ninth in the series, has now been published at 12s 6d net. This edition includes

the important changes in the law made by the Finance Act, 1954, such as that instituting investment allowances, altering the basis of assessment in the event of certain company reconstructions, and providing for terminal loss relief. The form of the *Chart-Manual* is the same as that of last year but there is an enlargement and some rearrangement to accommodate the new material.

Tolley's *Synopsis of Profits Tax*, price 5s net, is likewise brought up-to-date and forms a complete synopsis of the law with illustrations.

Tolley's *Synopsis of Estate Duty*, price 5s 6d net, includes the alterations made by the Finance Act, 1954, and appears to cover all aspects of the duty.

Tolley's *Synopsis of Taxation in the Republic of Ireland*, price 2s 6d net, seems to be the only up-to-date publication dealing with taxation in that country and points out the differences between the law in the United Kingdom and in the Republic. Examples of double taxation relief calculations are included.

Tolley's *Income Taxes in the Channel Islands and Isle of Man*, price 5s net, gives details of the law, rates of tax, allowances, etc., for Jersey, Guernsey and the Isle of Man and details of the double taxation agreements and Guernsey unilateral relief.

All these publications are extremely useful additions to the library of an accountant's office and are published by Chas. H. Tolley & Co., 15 High Street, Croydon, Surrey, and 33 Nottingham Place, London, W.1.

#### Expenses Deductible under Schedule E

We regret that a misprint occurred in the note in the December issue. On page 461, the eighth line of the first column, printed as "Professional subscriptions are now allowable . . ." should read "Professional subscriptions are *not* allowable . . ."

#### Age Relief and Net United Kingdom Rates of Tax

A taxpayer is always allowed to set his reliefs against his income to his best advantage. Accordingly, where he has income regarded as taxed at varying rates, he is entitled to set all reliefs (other than earned income relief) first against the income taxed at the highest rate, then against the income taxed at the next highest rate, and so on.

*Illustration:* A single man, aged sixty-six, has the following income:

	£	Net U.K. Rate
Pension	85	—
Dividend	200 (a)	9/-
Dividend	140 (b)	4/9
Dividend	110 (c)	2/4
	535	
Age Relief	119	
Personal	120	
	239	
	£296	



Supplement to *Accountancy*, January 1955.

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	£
Reliefs	239
Less untaxed income	85
	—
(a)	£154 at 9/-
	—
£100 { (a)	46 at 6/6
	(b) 54 at 4/9
£150 { (b)	86 at 4/-
	(c) 64 at 2/4
	(c) 46 at 2/-

Before 1952 the Revenue took the view that the age relief must be regarded as appropriate to each class of income, so that the age relief on £85 would be deducted from the £85, the age relief on £200 from the £200, and so on. This naturally resulted in a lower repayment.

Further illustration:

	£	Net U.K. Rate
Building society interest	80	—
Dividend	400 (a)	8/2
Dividend	100 (b)	2/6
	—	—
	580	
Age relief	129	
Personal relief	120	
	—	
	249	
Building society interest	80	
	—	
	329	
	—	
	£251	
Repayment:	(a) £249 at 8/2	
	(a) £100 at 6/6	
	(a) £51 at 4/-	
£150 { (b)	£99 at 2/6	
	(b) £1 at 2/-	

### Quick Succession Relief

Since 1914, where estate duty has become payable on any property consisting of land or a business (not being a business carried on by a company), or any interest in land or such a business, passing on the death of any person, and subsequently within five years duty again becomes payable on the same property, or any part of it, passing on the death of the person to whom the property passed on the first death, the duty payable on the second death in respect of the property in question is reduced as follows:

Second death	Estate duty reduced by (percentage)
Within 1 year of first death	50
" 2 years of first death	40
" 3 " " " "	30
" 4 " " " "	20
" 5 " " " "	10

Where the value is different on the two deaths, relief applies only to the duty on the lower of the two values, since only that value is taxed twice.

*Illustration:* A died leaving to B a business valued at £10,000 and land valued at £7,000. A's estate paid duty at 18 per cent. B died within three years, when the business was valued at £12,000 and the land at £6,500. Duty was payable at 21 per cent.

The relief is calculated as follows:—

	Business	Land
Duty at 21% on £12,000	=£2,520	on £6,500=£1,365 0 0
Relief at 30% of 21% on £10,000	£630	30% on £1,365 = £409 10 0
Net duty payable	£1,890	£955 10 0

In respect of deaths on or after July 30, 1954, the relief also applies to shares or debentures that have to be valued on two successive deaths under Section 55, Finance Act, 1940 (or by reference to their sale price under Section 30, Finance Act, 1954). In that case, the relief applies only to the part of the value of the shares which is attributable to the value of the land of the company (or of a subsidiary) or to the value of the assets used by the company (or its subsidiary) in a business not consisting mainly in the holding of or dealing in investments other than land.

*Illustration:* A died leaving 10,000 shares valued at £3 each to B, who died within two years of A, when the shares were valued at £4 each. On A's death 75 per cent of the value of the shares was attributable to land or business assets; on B's death the percentage was 60. Relief is therefore due on 75 per cent of £30,000=£22,500 or 60 per cent of £40,000=£24,000, whichever is lower, i.e. on £22,500 at 40 per cent of the rate of duty payable on B's death.

### Sur-tax and Controlled Companies

Except for controlled investment companies (where sur-tax directions are automatic), the "Chancellor's umbrella" (i.e. the statement made in Parliament to the effect that so long as distributions were not reduced and the money did not get into the members' pockets in some other way, no directions were being made) has acted as a shelter over controlled companies since the war. Various statements in the House of Commons on dividend policy recently made it seem as if the shelter was to be less reliable, and we now learn that in the official view if a company has once had a direction the umbrella no longer protects it: whether a reasonable dividend has been paid in respect of each year after the removal of the umbrella becomes a matter for argument.

As we have said before, we regard it as axiomatic that the Inland Revenue are entitled to take decisions, to have an "official view" and to have the right to change their view. We think, however, that so important a view as that mentioned ought to have been made public. Any change in the official view ought also to be made public. Inspectors of Taxes have difficulty in keeping up-to-date with all the changes in the law and practice; accountants and other taxpayers have no chance of learning about the changes in practice until they are announced or met in an actual case.



### Valuations of Shares under Section 55, Finance Act, 1940

As a result of Section 29, Finance Act, 1954, in respect of deaths on or after July 30, 1954, the Section 55 valuation still applies where there pass on the death shares or debentures of a company of which the deceased had voting control at any time during the five years ending with his death.

In any other case:

(a) If the deceased had powers equivalent to control during a continuous period of two years in the five years in question; or

(b) If he received during a continuous period of two years in the five years in question dividends which when added to interest accrued on debentures formed more than one-half of the total dividends and interest which could be treated as his benefits under Sections 47 and 48, Finance Act, 1940, or would have fallen to be so treated if he had made a transfer of property to the company; or

(c) If the deceased had at any time in the five years (not being a time when some other person had control of the company) a beneficial interest in one-half or more of the shares and debentures;

the Section 55 valuation will apply only if one of the following conditions is satisfied:

(i) that immediately after the deceased's death a person having control or powers equivalent to control of the company, either alone or in conjunction with his relatives, has a beneficial interest in possession in the shares or debentures;

(ii) that immediately before and after the death the shares or debentures are held by the trustees of some trust who then have control of the company by virtue of shares in or debentures of the company held by them as such trustees;

(iii) in the case of shares or debentures being liable as a gift *inter vivos*, that the donee or other person becoming entitled has control or powers equivalent to control, either immediately after the death or at any time after the making of the gift, either alone or in conjunction with relatives (Section 29, Finance Act, 1954).

Sections 29 and 31 need careful study to see the other details, particularly the definitions of various terms, such as "control," "debenture," etc.

### Red Tape

Section 51 of the Finance Act, 1949, now Section 510 of the Income Tax Act, 1952, regularised a procedure which had previously been carried out in practice, particularly in connection with Schedule D appeals, whereby agreement between the Inspector of Taxes or the Special Commissioners and the taxpayer was regarded as determining the appeal. The Section, like the previous practice, is reasonable, as otherwise any appeal would require adjudication formally by the Appeal Commissioners. Under Section 510 an agreement has the same finality as an appeal formally determined.

We are a little perturbed, however, by the formalities upon which the Special Commissioners are insisting in

regard to such agreements. The following is a specimen of what is happening:

In September, 1954, a taxpayer appealed against his sur-tax assessment on the grounds that it was excessive by a stated amount, giving the reasons. Exactly one month later a letter was sent by the Special Commissioners stating that they proposed to reduce the assessment by that stated amount and asked the taxpayer whether he agreed. The taxpayer thereupon wrote to the Special Commissioners stating that there was no apparent reason for replying to their letter as this merely gave effect to the reduction asked for. However, a fortnight later came a letter from the Special Commissioners noting the taxpayer agreed to the adjustment and enclosing an amended demand note.

This reminds us of *Alice in Wonderland*. The cost involved in all these letters is not negligible. Perhaps some of our learned readers will state whether it is really necessary for the Special Commissioners to have to write to say, in effect, "I agree with your contention, do you still agree?"

### Changes in P.A.Y.E. Practice

The Income Tax (Employments) (No. 5) Regulations, 1954, which came into operation on December 2, make minor amendments to the regulations governing P.A.Y.E. tax.

The definition of employer is widened to include holders of statutory offices who pay emoluments neither on their own behalf nor on behalf of any other person but in the exercise of duties imposed upon them by Statute. It is provided that tax shall be deducted by an employer when paying emoluments to a former employee who has left and for whom he no longer holds a tax deduction card. There is transferred from the Commissioners of Inland Revenue to the Collector the power to require payment of tax by an employee instead of by the employer where the employer has inadvertently failed to deduct the tax from the employee's pay. The Commissioners of Inland Revenue are empowered to require an employee himself to pay tax on his emoluments where they consider that he acquiesced in a wilful omission by the employer to deduct the tax. It also provides that, if where tax not deducted by the employer is to be collected from the employee, any dispute between employer and employee about whether any tax was in fact deducted and, if so, how much, is to be determined by the appropriate body of appellate Commissioners. The provisions of the Income Tax Acts requiring an employer to make a return of expenses allowances and other payments to or for the benefit of directors and certain employees are adapted to permit the use of a form of return more convenient for P.A.Y.E. purposes. Where the Inspector considers that an employee's objection to an assessment cannot be settled by agreement and that the employee is unreasonably delaying giving notice of appeal to the appellate Commissioners, the Inspector himself is now empowered to refer the objection to the Commissioners as though it were a formal appeal.

## Recent Tax Cases

By W. B. COWCHER, O.B.E., B. LITT.

### Income Tax

*Trade carried on jointly—Farmer—Agreement with firm of merchants for production and sale of crop to be raised on part of farm—Net profits to be divided equally—Whether a partnership—Income Tax Act, 1952, Schedule D, Cases I and II.*

**George Hall and Son v. Platt** (Ch. October 15, 1954, T.R. 331) was a case where the appellants, farmers owning and occupying a farm in the Fens, appealed against a decision by General Commissioners confirming an assessment for 1950/1 made upon them and a firm of merchants jointly in respect of the profits arising from a crop of carrots raised and sold in the season 1949/50. (It is not stated in the judgment whether objection to joint assessment had been made upon behalf of the merchants or, in view of earlier practice, what was the real reason for the Revenue's having a joint assessment raised for 1950/1.) The merchants in question, Messrs Rowe and Manchett, carried on business both as farmers and as merchants of agricultural produce and as part of their business were accustomed to enter into agreements with other farmers for the growing and marketing of crops grown on the latter's lands. There had been in fact similar agreements between the appellants and the merchants for a number of years. The agreement in the case was made on January 4, 1949, and the issue was whether it constituted a partnership between the parties to it—not a general partnership but one limited within the scope of the agreement—or whether it was a turning by the appellants of their land to advantage by permitting the merchants to grow a crop thereon upon the terms that they were to be paid part of the proceeds of sale.

The terms of the agreement were, of course, all-important and were as follows:

- (1) The farmers will find the land and all horse labour for the crop being paid therefor out of the proceeds of sale of the crop;
- (2) The merchants will find all the seed and manure and all hand labour necessary for cleaning and harvesting the crop and will harvest and sell the crop being paid therefor out of the proceeds of sale of the crop;

(3) After payment of all such expenses any balance remaining is to be divided into two equal parts one of which is to belong to the farmers and the other to the merchants;

(4) The merchants will render a proper account to the farmers on completion of the transaction and will pay them thereupon the total amount shown to be due to them.

The agreement had been carried out; the sale of the crop had been conducted solely by the merchants and it had been proved before the Commissioners that there was no joint banking account and no joint assets. Other features submitted to the Court upon appellants' behalf were that there was no reference to partnership capital, no joint ownership of any property, no joint employees and no evidence of either of the parties holding out the other as his partner. Further, there was no common duty or obligation which the parties had to share; each had his own duties carefully and fully laid down in the agreement and there was nothing in the agreement constituting one party the agent of the other for the carrying out of his duties. Whether there was a sharing of losses under the agreement was a point in dispute. Curiously enough, the agreement did not contemplate losses; and, although counsel for the Crown argued that there was in fact a sharing of losses in the event of expenses exceeding proceeds because there would have to be an abatement of the parties' claims on the proceeds, it was replied upon the appellants' behalf that each received back a part of the proceeds and, according as the figures varied, the shares in the loss would vary. It was apparently not disputed that there would be a sharing of losses if expenses exceeded proceeds and counsel for the Crown pointed out that as it was not contended that the case was one of general partnership but only partnership in a single specific venture, the absence of the ordinary features of a general partnership was not surprising. The case of *John Gardner and Bowring Hardy and Co. Ltd. v. C.I.R.* (1930, 9 A.T.C. 332; 15 T.C. 602), where the facts were very similar, was relied on in support of the Crown's contention; and Upjohn, J., hesitatingly upheld the decision of the Commissioners.

He said, after referring to the case of *Badeley v. Consolidated Bank* (1888, 38 Ch. D. 238):

You have to look at the whole agreement, and see whether, on considering all the relevant circumstances, a partnership was intended or not.

and the only comment the present writer would make upon this declaration is that the words "a partnership" must be read as "a relationship which the law regards as a partnership." Many a man has found to his dismay that his "intention" will be gleaned from the operative words of the agreement and that even a declaration therein that it is not to constitute a partnership is ineffective to protect him from the obligations of partnership. Whether or not a partnership exists is a question of fact; but often one of the difficulties of the problem is the relation between causes and consequences. In the present case, for example, the absence of certain usual features was, it was urged, indicative of no-partnership. If, however, partnership was found to exist, then, unless there was express provision to the contrary, the missing features would, in so far as necessary, be supplied by the provisions of the Partnership Act, 1890, itself; and, in regard to losses, it would seem that a loss shown by the partnership account would then have to be shared equally between the appellants and the merchants unless they agreed otherwise. In a vast number of other cases relations which amount either to joint ventures or to sub-partnerships exist of which the Revenue, for practical reasons, has hitherto as in the present case taken no cognisance. Any change of policy will, no doubt, also be dictated and limited by similar considerations.

### Income Tax

*Schedule E—Office or employment—Travelling expenses—Obligation to keep a car—Claim for allowance of difference between cost of travelling from home to office by car and cost of travelling by train—Income Tax Act, 1918, Schedule E, Rule 9.*

**Burton v. Rednall** (Ch. October 14, 1954, T.R. 329) was an "expenses" case, where a taxpayer assessed under Schedule E had been refused relief both by the Inspector and by the General Commissioners on appeal. It required what must have proved a costly lesson in the High Court before he was convinced, if at all, that Rule 9 of Schedule E in the Income Tax Act, 1918 (now Rule 7 of the Ninth Schedule in the Income Tax Act, 1952) was so inelastic and inex-

orable as to make his claim inadmissible. The appellant became in February, 1948, the secretary of the Red Poll Cattle Society, whose offices were in Ipswich. At that time, unable to find a house in Ipswich which he could rent, he was forced against his will to take a house in the village of Cotton some nineteen miles from Ipswich. It was necessary for him to have a motor-car to carry out his duties and inasmuch as he had to make frequent visits to farmers in the surrounding country he was, according to the judgment, obliged by the society to do so. In some cases he motored from Cotton to the farm and, his business there completed, went on to Ipswich. As the Judge said, speaking of the car:

As a practical matter, it is also essential for him to have it at Cotton, because it would be very silly to leave it in Ipswich, go by train to Ipswich and then, perhaps, motor out to some farm which is much nearer to Cotton.

Although there was apparently an excellent train service, the appellant in the circumstances normally motored from Cotton to Ipswich; and he claimed to be allowed as expenses necessarily incurred the excess cost of travelling from Cotton to Ipswich by car over the cost of going by train. Upjohn, J., applying the rules laid down by the House of Lords in *Ricketts v. Colquhoun* (1926, 4 A.T.C. 565; 10 T.C. 118), said that to justify allowance the expense had to be one which the holder of an office was bound to incur, and it had to be incurred in the course of the performance of his duties. Applying these tests, although "It is reasonable for him to do so—indeed he is bound to do so," he held that when travelling from Cotton to Ipswich and back he was either going to perform or returning from the performance of his duties. In those circumstances, he was, he said, reluctantly forced to the conclusion that the appeal must fail.

However much Rule 9 of Schedule E and its successor may be deemed to be harsh and unconscionable in its application to many cases, it may be said to have one virtue of no mean order. As interpreted in *Ricketts v. Colquhoun*, it does lay down certain definite conditions which have to be fulfilled before expenses become allowable.

## Income Tax

*Schedule D—Deduction in computing profits—Company operating railway abroad—Local social legislation—Salary*

*compensation payable to employees on cessation of employment—Total sum payable only then calculable but irreducible minimum sum payable in respect of each year of service—Whether minimum sums to be regarded as deferred remuneration for the year in respect of which payable and allowable as deduction in computing profits of that year.*

**Owen v. Southern Railway of Peru Ltd.** (Ch. October 15, 1954, T.R. 335) was a case where the issue was both interesting and important. The respondent operates a railway in the Republic of Peru and, of necessity, has a large number of employees, salaried and wage-earning. In 1924, by a law of the Republic, No. 4916, a scheme of retirement benefits called "compensation" was introduced providing for lump-sum payments to be made by employers on the cessation of employments. It applied only to "black-coated" workers, and was the first of a series. In the judgment, reference is made to six later laws, Nos. 5119, 6871, 8439, 9463, 10211 and 10289. These laws extended both the area of application and the amounts of compensation payable. In particular, Law No. 8439 provided that in case of the death of an employee the compensation should be paid to the deceased's heirs or, in default, to his dependants, whilst by Law No. 10211 the scheme was extended to wage-earners. Save in certain cases, e.g. dismissal for misconduct on the part of an employee, the liability of the employer to pay compensation was inescapable. No "contracting-out" was permissible; and if an employee gave the appropriate statutory period of notice, forty days in the case of employees within Law No. 4916 and fifteen days in the case of wage-earners, he would be entitled to be paid the compensation which had accrued.

By article 2 of Law No. 6871 the nature of the "compensation" was defined as follows:

Payment . . . from the legal viewpoint represents a remuneration which the employer pays for the work of his employee, whether the latter's engagement is for an indefinite period or for a fixed time, and whether or not registered as a public deed,

and the current method of computing the amount payable is best shown by two examples taken from the judgment.

(1) "A" is dismissed (or retires voluntarily after giving proper notice) after twenty years' service. His last year's salary, £1,200 per annum, is the highest reached by him. His compensation will be £100 multiplied by twenty, £2,000. In such a case, variations

of earnings during the twenty years would be irrelevant.

(2) "B" receives £600 per annum for the first five years, £1,200 per annum for the next five years and £600 per annum for the next five years. He is then dismissed. His compensation will be at the rate of £100 per annum for the first ten years—the fact that he only earned £600 per annum for the first five years being irrelevant—and at the rate of £50 per annum for the last five years, making £1,250 in all.

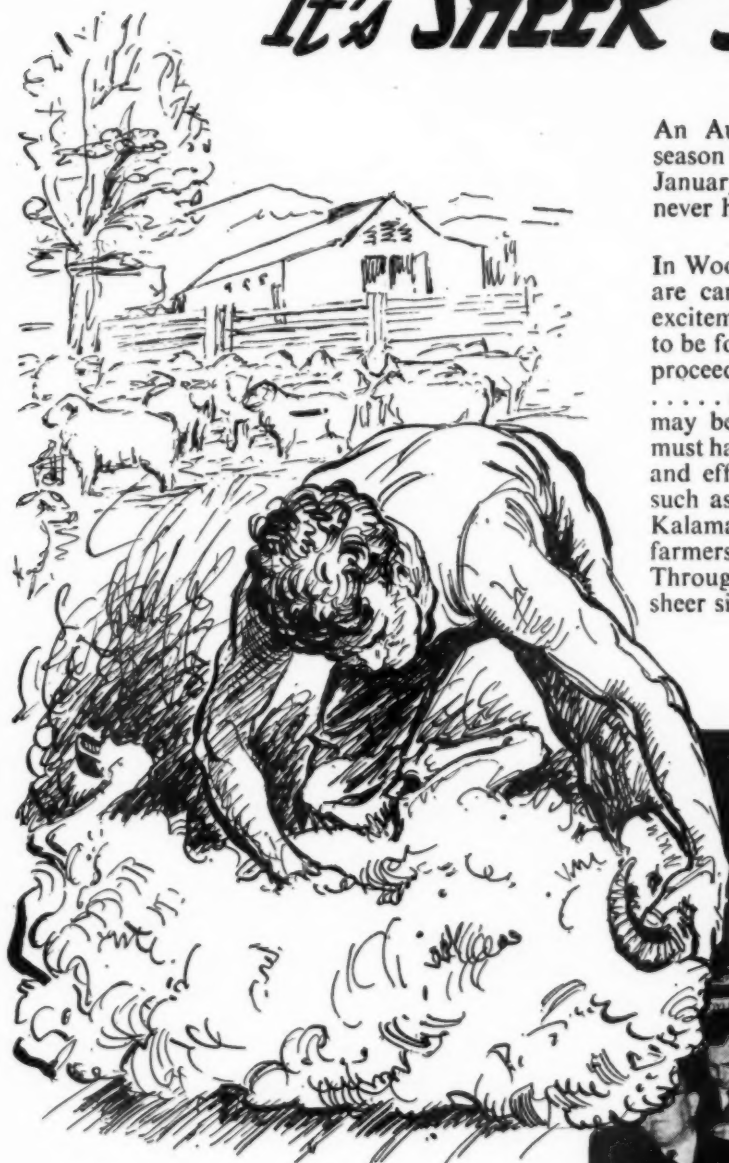
For the company it was claimed that provided the employee was not dismissed for misconduct, etc., and in case of his voluntary retirement provided he gave the necessary notice, it was possible in every year to state with complete accuracy the minimum sum of compensation to which he would be entitled, and that that minimum sum could be regarded as deferred remuneration for that year and ought to be allowed to the company as a deduction in computing the year's profits for income tax purposes.

Applying this argument to the case of "B" it will be seen that for each of the first five years the "minimum" would be £50 but that for the sixth year in which his salary was £1,200 the amount would be £100 plus an additional £50 for each of the first five years, making £350 for the sixth year. For each of the next four years he gets £100. These are all minimum sums. If instead of his salary for the eleventh year being reduced it had been doubled he would be entitled to very much more in respect of the ten previous years. For the Crown, it was contended that the liability imposed upon the employer was not a liability for tax purposes until it had become an obligation to pay, i.e. upon death or retirement; and that the law provided not for a deferred payment based on salary year by year—and even if it did it was not conceded that the company would succeed—but for the obligation to make a payment on retirement which in nearly every case was based upon the last year's salary. Further Crown arguments were that only the minimum sum attributable to any given year was calculable and that the right to any payment was contingent upon good behaviour by the employee. In no case, save in cases related to insurance, had the subject been allowed to deduct a wholly future and contingent liability.

Counsel for the company replied that although the employee's right was strictly contingent, the contingency was negative in that failure of the right depended upon some act or omission by the employee. Nothing the employer did could affect the employee's right to



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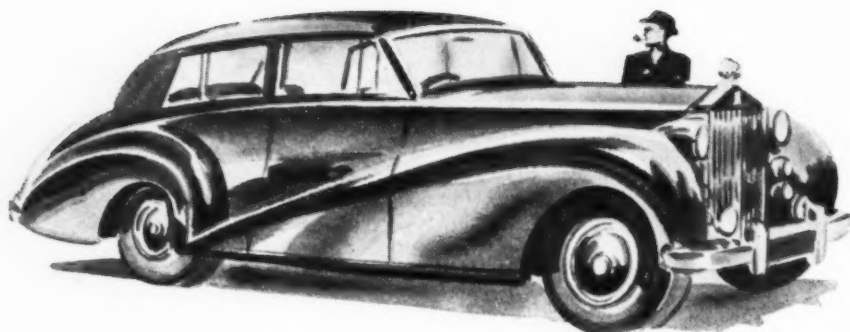


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payment on cessation. He contended that the true effect of the legislation was that there was deemed to be incorporated into every contract of service that at the end of each year the company became under a firm liability to pay to the employee a certain minimum sum in respect of his services for that year, the time of payment being the termination of the employment. It was, it was argued, a method of deferred remuneration as expressly stated in Law No. 6871.

The Special Commissioners, obviously influenced by the fact that the company's auditors had refused to sign the balance sheet without qualification unless provision was made for the deferred payments, had decided in the company's favour. Upjohn, J., reversed their decision; and at the commencement of his judgment he declared that they were not concerned "with any question of statutory allowances or prohibited deductions," but with the question whether the deductions claimed ought to be allowed "in computing the full balance of profits and gains for the year as provided by Rule 1 of Case I of Schedule D." This, it would seem, made the question one of commercial principles; and the judge went on to say that the company had to establish two propositions, first that the legislation did provide for deferred payments of a certain minimum sum for each year's service and, secondly, that it was right to regard that sum as a proper obligation for income tax purposes of the year in which the services were rendered. He held that neither was established. On the first, he said he could see nothing in the legislation of an intention to provide for deferred remuneration calculated by a certain minimum sum for each year referable to the services rendered in that year. As to this, one would have thought that if as the result of an enactment an employer did become liable to pay a definite minimum sum in respect of an employee's services in a year, that result must be deemed to be a statutory "intention." The second proposition was negatived because:

the ordinary rule is that the proper time to debit a liability of the company is when it has become a present liability or more truly an obligation; that is to say, in an ordinary case has become payable, although he admitted exceptions as in the case of deferred payments for goods.

In the writer's opinion, looking at the matter from the economic standpoint, the decision of the Special Commissioners was sound. As regards the second proposition, it would be interesting to know whether the account-

ancy profession agrees with the Judge's view of how the liability should be dealt with on "ordinary commercial principles."

#### Income Tax

*Schedule D, Case I—Deduction—Open-cast coalmining—Purchase of land for purpose of removing underlying coal—Covenant by vendor to repurchase land after extraction of coal—Whether expenditure on purchase and receipt on re-purchase revenue or capital transactions—Income Tax Act, 1918, Schedule D, Cases I and II, Rule 3(f), (Income Tax Act, 1952, Section 137 (f)).*

**Knight v. Calder Grove Estates** (Ch. October 20, 1954, T.R. 341) was an appeal raising the familiar question whether expenditure made by the respondents for the purposes of their trade was of a capital or revenue nature. The respondents were two companies which carried on trade in partnership as Calder Grove Estates. In 1946 they acquired by assignment the residue of a long lease of certain minerals underlying an area of some 640 acres in Yorkshire. These minerals so vested in them were divested by Section 5 of the Coal Industry Nationalisation Act, 1946, and became vested in the National Coal Board which, however, granted them a licence to work the minerals. Shortly afterwards the partners were minded to work some ten acres of the coal by open-cast methods and with this object by conveyance dated December 18, 1947, they acquired for £2,000 the fee simple of the land above the coal which they wished to extract. By the terms of the conveyance, after getting the coal they were to reinstate the overburden in manner directed by the vendor in writing, to replace the drainage and to fence off the property. The vendor upon his part covenanted to re-purchase the land so restored for £500. The coal was got and in 1952 the land was re-conveyed to the vendor. The whole issue in the case was whether the £2,000 and £500 were of revenue or capital character. The General Commissioners had found in favour of the respondents; but Upjohn, J., reversed their decision.

The Crown's argument was that the partners were not dealers in land, that it was acquired for the purposes of coalmining, could not be described as stock-in-trade or circulating capital and, on ordinary principles, fell to be treated as of a capital nature. For the respondents, upon the other hand, there were three contentions. First, it was claimed that the finding of the Commissioners that

the sum paid for the land was a revenue charge was a finding of fact which the Court ought not to disturb. Upjohn, J., rejected this argument, holding, on the authority of *Bean v. Doncaster Amalgamated Collieries Ltd.* (1946, 25 A.T.C. 15; 27 T.C. 303), that the question was a mixed one of fact and law on which the Courts frequently overruled Commissioners. The second contention was that the purchase of land was so frequent as to constitute recurring expenditure, the Commissioners' case showing that the partners had acquired in two cases other lands for a similar purpose, although in those cases they had not to restore the overburden and there was no provision for re-purchase by the vendors. In those cases no claim had been made for allowance of the sums paid. This second point about recurring expenditure had not been taken before the Commissioners and Upjohn, J., held that the point was not open to counsel for the respondents before him; and he declined to send the case back to the Commissioners.

The third and what the Judge called the main contention was that the payment of £1,500 net was really a transitory matter and should be looked at as the expense of getting the coal and, in support, Lord Cave's famous dictum in *Atherton v. British Insulated and Helsby Cables Ltd.* (1906) (1926, 7 A.T.C. 548; 10 T.C. 155) was relied on. Upjohn, J., in rejecting this argument said that the respondents could have adopted other means of getting the coal. No one had, he said, suggested that the purchase of the land was circulating capital, stock-in-trade, or anything of that sort. It was a purchase of land for the adventure and on ordinary principles was as much capital expenditure as if land were bought and a factory put upon it or land bought and a shaft sunk. In his judgment, the fact that the adventure was not likely to continue for many years was quite irrelevant.

There is always the appearance of inequity in these cases and in some no doubt it is a reality. Nowadays, however, no prudent person enters into such a contract without first taking the taxation aspect into account. Supposing that in the present case the respondents had been advised prior to the contract that the £1,500 net would not be allowed as a deduction for tax purposes. On that footing, the tax on this sum would be simply an item to be taken into account in fixing the maximum net price which the respondents would be prepared to pay for the coal rather than go without it or having to get it by another method.



In such a case the incidence of the tax would be mainly on the landowner.

### Income Tax

*Trade—Unemployed clerk of works—Purchase of plot of land—House built thereon by personal labour of appellant during unemployment—Sale of house—Purchase of another plot of land on which another house built by personal labour whilst still unemployed—Both houses occupied by appellant and wife prior to sale—Appointment as clerk of works in a distant area—Removal from second house to take up appointment—Sale of second house—Whether a trade carried on—In what years profit assessable.*

**Page v. Pogson** (Ch. October 26, 1954, T.R. 359) was a case of which the main facts are set out above. The appellant had built two bungalows at Barton-on-Sea, near Bournemouth and Christchurch, Hants, respectively. The first had been built between November, 1946, and December, 1948. In May, 1949, he sold it and then started on the second bungalow. In October, 1951, he was appointed as clerk of works to Wisbech R.D.C., some 200 miles away, and thereupon sold the second bungalow. He was assessed for income tax in respect of the profits on both sales. On appeal, the General Commissioners had found in his favour as regards the first house and against him on the second. The profits had been subsequently agreed at £1,000. The Commissioners had come to the conclusion that whilst the appellant had not built his first bungalow with the idea of re-sale or of carrying on the business of a builder, the success of the first transaction had encouraged him to build the second bungalow as a business venture. This was a finding of fact and Upjohn, J., said that whilst he might have come to a different conclusion he could not say that there was no evidence upon which the General Commissioners could reach their conclusions. A second point in the case was as to the year of assessment, the appellant contending that the profit should be spread over the two and a half years in which he was building the house, whilst the Commissioners had upheld the Inspector's contention that the whole should be taxed for the year of sale. Upjohn, J., again upheld the Commissioners' decision.

Upon the assumption that the Commissioners were justified in finding that the second transaction was a business venture—the crucial point in the case—the fact of removal to Wisbech deter-

mining the time of sale would not alter its character.

### Profits Tax

*Principal company and subsidiary company—Grouping notice—Direction by Special Commissioners whereby income of principal company apportioned to members for sur-tax—Whether notwithstanding grouping notice profits of subsidiary company assessable to profits tax—Finance Act, 1920, Section 52(2)—Finance Act, 1922, Section 21—Finance Act, 1937, Sections 19, 20, 21, 22—Finance Act, 1947, Section 31.*

**Healex Investments Ltd. v. C.I.R.** (Ch. October 20, 1954, T.R. 345) revealed that in certain cases the unpleasant consequences of direction and apportionment of a company's income to its members for sur-tax under Section 21 of Finance Act, 1922, may be mitigated by relief in an unintended quarter. At all material times the appellant company was a subsidiary of Sidcup Investments Ltd., a company within the mischief of Section 21. For the years 1947, 1948 and 1949 the Special Commissioners had made directions whereby the income of *Sidcup* was apportioned among its members. By Section 19 of Finance Act 1937 the tax, then called the National Defence Contribution, was introduced and, subject to the exemptions set out in Section 19(5), it was to apply to the profits of all trades or businesses carried on by persons resident in the United Kingdom. By Section 22(1) of the same Act, in a case where a body corporate resident in the United Kingdom was a subsidiary of another such body also so resident, the principal company by written notice—there was no dispute in the case that the notice had been given—could require that for any chargeable accounting period to which the notice related and for all subsequent periods throughout which it continued to be a subsidiary company the profits or losses of the subsidiary company should be treated as if they arose from the trade or business of the principal company. As the result of the notice given by *Sidcup* in 1948, assessments to profits tax had been made upon it in respect of the profits of both companies.

In 1947, the scheme of the 1937 Act was re-cast and the tax was re-named the Profits Tax. By Section 31(1) individuals and partnerships were exempted from the tax and by Section 31(2) it was not to apply to any trade or business carried on by a body corporate where

for the whole of a chargeable accounting period the actual income was apportioned to its members under Section 21 of the Finance Act, 1922. On September 29, 1952, notice was given by the Special Commissioners to *Sidcup* applying Section 21 for the relevant years and, assuming the direction to become final and binding, *Sidcup* would be exempt from profits tax under Section 31(2). On this footing, for the years 1947, 1948 and 1949, *Sidcup* had been repaid the profits tax already paid. The Revenue had, however, made upon the appellant company, its subsidiary, fresh profits tax assessments for the two yearly periods ending on January 31, 1948, and 1949, respectively, upon the ground that where the principal company was not itself liable to profits tax the exemption of the subsidiary company by Section 22(2) of the Finance Act, 1937, had no application. For the Crown it was argued that for the exemption to apply there was an underlying assumption that the principal company was itself liable to the tax.

This argument for the Crown was supported by reference to *Birmingham District Power and Traction Co. Ltd. v. C.I.R.* (1928, 141 Law Times 1), a case arising out of the Corporation Profits Tax imposed by Section 52 of the Finance Act, 1920. (That tax was abolished by Section 34 of the Finance Act, 1924.) Certain classes of companies were exempted from the tax and by Section 53(3), a provision very similar in purport to Section 22(2) of the 1937 Act, a principal company could give notice requiring that the profits of a subsidiary should be treated as if they were its own. The appellant company carried on a business which exempted it from Corporation Profits Tax; but it was the principal in relation to three other non-exempt companies and the Revenue had accepted its application that the profits of the subsidiary companies should be so treated. It had, however, assessed the principal company in respect of the profits of the subsidiaries. Ultimately, by a unanimous vote in the House of Lords the assessments were discharged upon the simple ground that the principal company was exempt. Lord Buckmaster, however, had held *obiter* that the Revenue had been wrong to accept the notice under Section 53(3); and it was his *dicta* which formed the substance of the Crown's argument in the present case. His view, however, had found no support in the other speeches in that case. Here, the assessments had been made upon the subsidiary company and the Special Commissioners had

upheld them. Upjohn, J., reversed their decision.

He said that there was one cardinal distinction between the case before him and the Corporation Profits Tax case, apart from the fact that all the opinions in the latter were *obiter*, in that at the time the notice under Section 22(2) was given by *Sidcup* and acted on it had to be assumed that it was not an exempt company. (The direction under Section 21 of the Finance Act, 1922, was as mentioned above not given until 1952.) The words of the statute were, he said, quite plain and the introduction of any underlying assumption meant restricting the meaning of "principal company." He held that any company resident in the United Kingdom could give notice under Section 22(2) and, notice once given, it followed automatically that the profits of the subsidiary company had to be treated as the profits of the principal with all its consequences. The judgment strikes the present writer as both acute and legally satisfying. It would seem that even if the Revenue has not been "bitten by the same dog twice" it is a very similar animal.

## Tax Cases—Advance Notes

By H. MAJOR ALLEN

### COURT OF APPEAL

(Sir Raymond Evershed, M.R., Jenkins and Birkett, L.J.J.)

**Stow Bardolph Gravel Co. Ltd. v. Poole.** November 16, 1954.

This case was noted in *ACCOUNTANCY* for July, at page 274.

The Court of Appeal unanimously reversed the decision of Harman, J., and restored the determination of the Commissioners that the £2,000 claimed as a deduction was inadmissible.

**Bambridge v. C.I.R.** November 18, 1954.

In 1933 the taxpayer's parents transferred certain assets to a Canadian company. By settlements made in 1934 each parent transferred shares and debentures in the company to trustees on trust for the respective settlors during their lifetime and thereafter for the taxpayer for life. The father died in 1936. The mother revoked her settlement in 1937, and died

in 1939, leaving a will under which the taxpayer took a life interest in the shares, etc., in the company. The taxpayer was assessed to tax under the provisions of Section 18, Finance Act, 1936 (now Section 412, Income Tax Act, 1952) on the footing that she had acquired power to enjoy the whole income of the Canadian company. The Special Commissioners confirmed the assessments, but Harman, J., held that they should be discharged so far as they related to the proportion of the income of the company attributable to the shares passing under the mother's will, on the ground that the making of the will was not an "associated operation" effected "in relation to" any relevant assets since it did not specifically dispose of the shares. Both parties appealed.

The Court of Appeal, allowing the Crown's appeal, restored the decision of the Special Commissioners.

# THE STUDENT'S TAX COLUMNS

## The Income of a Trust Estate

THE ESTATE OF a deceased person is often left (or devolves on intestacy) on trusts whereby the income has to be divided or accumulated and the capital remains in the hands of the trustees until specified events happen.

In such circumstances, once the residue has been ascertained and the administration completed, each year thereafter a statement of the income of the trust, the charges thereon and its destination, has usually to be made to the Inland Revenue on form R.59. The details on this return will not always be the same as those in the trust income account, for the following reasons:

(1) If a business is being carried on, the amount to be included in the statement is the Case I assessment (less capital allowances), not the profits according to the accounts.

(2) Untaxed interest and income from sources outside the United Kingdom must be included at the amount of the assessment under Case III, IV and V, which is usually the previous year's income. With fixed interest sources, there is no divergence in the figures, provided the income has been received. However, it is customary in trust accounts not to bring in income until receipt.

(3) In the case of houses or land, the statement has to state the rent received, with details of allowances for maintenance, voids, etc. This is to enable the excess rents to be computed where relevant. The ultimate liability for tax is not on the rent, but on the statutory income—net annual value (or rent received if less) plus Case VI assessments on excess rents—less any appropriate reliefs for maintenance, voids, etc. Ground rents and the long lease rents are, of course, taxed at source and brought in as received.

(4) Expenses incurred by the trustees are included in the statement in so far as they are for the purpose of administering the trust or collecting the income, but there must be excluded the cost of collection of rents, maintenance or insurance of property in respect of which the income is computed by reference to the net Schedule A assessment.

There must be stated against the income from dividends from United Kingdom companies the net United Kingdom rate of tax.

Trust accounts are normally made up to the anniversaries of the date of death and do not coincide with the income tax year. The statement may be made for the year

ended April 5, but it is usually more convenient to make it up for the trust accounting year ended next prior to April 5.

The following shows how the form may be completed:

**Trust statement for the year ending April 5, 1954**

**INCOME OF THE TRUST**

**Section A. No. 1. Sources of Income**

	Gross			Amount of Income Tax paid on or deducted from each source		
	£	£	s. d.	£	s. d.	
Schedule A assessment on Black- acre .. .. .	50	0	0	22	10	0
Schedule A assessment on White- acre (Rent £130) .. .. .	80	0	0	36	0	0
Excess Rent on Whiteacre—Case VI Assessment (£130—£25 repairs allowance=£105 which less net annual value=£25)	25	0	0	11	5	0
Schedule A assessment on:	£					
Brownacre .. .. .	72			32	8	0
Less Maintenance .. .. .	60					
	—	12	0	0		
Case III Assessment on bank deposit interest .. .. .	6	0	0	2	14	0
Case III on 3 per cent Defence Bond interest on £1,000 .. .. .	30	0	0	13	10	0
Dividends:						
£5,000 A.B.X. Co., Ltd. Ord. Stock (net United Kingdom Rate, 6s 7d) .. .. .	500	0	0	225	0	0
1,000 R.N.P. & Co., Ltd. £1 Pref. 6 per cent shares (net United Kingdom rate 8s 11d)	60	0	0	27	0	0
Total amount of income and income tax thereon .. .. .	763	0	0	370	7	0
No. 2. Charges (including Annuities), etc., on Income						
Annuity to Miss A. B. Celia, £ 10 North Row, Southside .. .. .	104					
Ground Rent on Blackacre pay- able to A. B., Esq., Midland House, Northtown .. .. .	40					
Bank interest .. .. .	20					
	—	164	0	64	16	0
		£599	0	£305	11	0

NOTE:—Tax is repayable on maintenance and bank interest, £80 at 9s=£36.

**Section B. Allocation of Income to Specific Purposes:**

(Particulars of any part of the trust income (exclusive of amounts to be included in A, No. 2 above or in C below) which is not divisible among the beneficiaries and which is applicable either under the will or the settlement to specific purposes such as provision for redemption of leases or mortgages, etc.)

	£	s. d.
Provision for redemption of lease on Blackacre .. .. .	32	0

**Section C. Expenses incurred by the Trustees:**

Solicitors' and accountants' charges .. .. .	27	6	0
Postages and travelling .. .. .	1	4	0
	£28	10	0

**Section D. Summary:**

	£	s. d.	£	s. d.
Amount of income less charges (Section A) .. .. .			599	0
Deduct income tax on above borne by the trust (Section A) .. .. .	269	11	0	
(Although the form does not provide for it it is well to adjust for the tax repayable on the maintenance and bank interest.)				
Income allocated to specific purposes (Section B) .. .. .	32	0	0	
Expenses incurred by trustee (Section C) .. .. .	28	10	0	
			330	1
Available for division among the beneficiaries .. .. .			£268	19

**Section E. Division of Income:**

Names and addresses of bene- ficiaries	Fractional share or other basis of division under the trust	Share of income as computed above	Amount actually paid to, or for the benefit of, each beneficiary
B. B. (infant)	Amount spent— contingent in- terest	£100 0 0	£100 0 0
R. B. (widow)	$\frac{2}{3}$ of balance	126 14 3	90 0 0
M. B. (mother)	$\frac{1}{3}$ of balance	42 4 9	30 0 0

If the trust were discretionary or contingent (as in the case of B. B.) only the amounts paid would be treated (and their gross equivalents) as the beneficiaries' income, the rest being accumulated. Here the shares of the widow and the mother are absolute.

In many statements, however, the rents received are included, with the result that the shares in Section E do not correspond, as they do here, with the true shares of the statutory income of the trust.

The form R.185E for B. B. would read:

**Income Tax—Beneficiary of Trust**

I hereby certify that B. B. of . . . . . is a beneficiary of the trust known as A. B. deceased's trust estate to the extent of the amount applied in his maintenance and education and that the particulars given in the statement overleaf are correct. Information regarding this trust has been or will be furnished to H.M. Inspector of Taxes, . . . District.

Date . . . . . 1954 . . . . . Signature of Trustee (or authorised Agent for the Trust).

. . . . . Address.

**Statement**

Income for the year ended April 5, 1954.

Gross amount of the bene- ficiary's share of the trust income	Amount of income tax suffered there- on by the trust of, the	Amount of net pay- ment actually made to, or for the benefit of, the beneficiary	Amount of pay- ment included in Col. 3 met out of the capital of the trust
£181 16 4	£81 16 4	£100 0 0	— — —



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- 3 | It was then called Wilcumstou, later Welcomestowe?
- 4 | In 1762 it had 301 houses and 97 cottages?
- 5 | In 1870 its population was 11,000?
- 6 | Today it has 120,000 inhabitants?
- 7 | It has a fine Town Hall and Civic Centre?
- 8 | A local building society was established in 1877?
- 9 | After seventy-five years the Society is stronger than ever?
- 10 | Thousands have bought their homes through it?
- 11 | More have placed their savings in it?
- 12 | The smallest saving is £1?
- 13 | The largest share is £5,000?
- 14 | Yearly interest is £2 15s 0d net on every £100?
- 15 | This is paid half-yearly?
- 16 | The society pays the tax on the interest?
- 17 | A trustee investment in all but name?
- 18 | We give special terms to limited companies?
- 19 | It is the Walthamstow Building Society?

*. . . and the 20th question!*

- 20 | If you are in the responsible position of advising clients in financial matters, why not call or write to the Secretary

*Samuel H. Russell, F.C.C.S.*

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ASSETS £2,350,000

## Points From Published Accounts

### Thoughts from Group Accounts

FOLLOWING THE PRACTICE of previous years *Joseph Lucas (Industries)* again sets an arduous task for shareholders who want to know the trading profits. The group profit and loss account sets off with a "consolidated surplus from operations after taxation and deductions as detailed below" and to this is added six items, including income from investments, from royalties and from property and net profits from earlier periods. Shareholders then arrive at a net income from all sources, and from this is deducted the profits retained by the subsidiaries. But before that deduction takes place there is interpolated a list of no less than ten items that have been deducted in arriving at the net income. These include tax, depreciation, supplementary pensions, consequential loss insurance reserve, an unchanged allocation to replacement reserve for buildings, plant and equipment and £35,000 stamp duty on increased capital.

The penultimate allocation hardly meets the fixed assets replacement problem. For turning to the excellent footnotes we find that the depreciation charge has greatly increased by £136,000 to £1,119,587 and that "the depreciation charge increases as additional buildings and plant are acquired and as old plant is replaced by new at present increased prices." Why has the reserve transfer not been increased as well? Regarding this transfer to replacement reserve for buildings, plant and equipment, shareholders are told: "The normal depreciation based on original cost is insufficient to maintain the company's physical investment in buildings, plant and motor vehicles due to the much lower purchase prices when these were acquired as compared with the high prices ruling today. For this reason £850,000 has been allocated as in previous years."

There is a drop in the parent's buildings, plant and equipment reserve from £3,934,805 to £944,727 as a result of a 100 per cent scrip issue which capitalised £7 million of reserves. As we have remarked before, the sooner we have no par value shares, the better it will be.

Joseph Lucas (Industries) dividends are very well covered indeed, but were this not the case we should have to criticise the step of lumping interim

Ordinary and Preference dividends together, and doing the same with the final dividends.

The lay-out of the group balance sheet is interesting as well as effective. The assets are shown in three groups in this unusual order: current assets, fixed assets, and investments in industrial companies. On the other side there are four main heads: current liabilities, provisions, capital and reserves, the last sub-divided into capital and revenue reserves. The "General Notes and Information" are first-class. Future tax is shown as a provision, and it is pointed out that this represents income tax on the profits for the year, payable on January 1, 1956. Then it is stated that debtors have not increased in relation to the turnover, and the big increase in fixed assets is carefully explained.

The company thus goes to considerable trouble on behalf of its shareholders, and it is a pity that they are not given a figure of trading profit. And why relegate directors' emoluments to a note? They amount to only £47,802 for six directors who run an undertaking with balance-sheet assets of £42.5 million.

*J. Brockhouse* divides its group trading profit between home and overseas, and this is a commendable step. As with so many other group accounts, the company does not show a group net profit attributable to shareholders of the parent, a net surplus being struck before deducting minority interests. But for this point we could have nothing but praise for the practice of dealing with exceptional items *after* striking the net profit instead of before. All that shareholders need to do in order to work out the "normal" cover for their dividends is to deduct minority interests from the net profit shown.

As with *J. Lucas* the group profit and loss account gradually becomes whittled down to a profit and loss account of the parent, and the balance transferred from the former account is a hybrid one, including profit on property realisations and less an amount written off goodwill. In the previous year it included surplus tax reserves and Excess Profits Levy repayable, and was less amounts written off goodwill and development expenditure in a subsidiary. May a plea be made that group accounts should show a

"normal" group net profit attributable to the parent shareholders before deducting reserves and other optional appropriations made by the subsidiaries?

*Crittall Manufacturing* strikes a consolidated net profit and then deducts the retentions of the subsidiaries in arriving at the parent's net profit. By virtue of the treatment of an exceptional item it is possible for shareholders to see at a glance what the group normal net profit is, and what the dividends will absorb. *Joseph Lucas (Industries)* might take a lesson from *Crittall's* method of showing dividends. The dividends for the year of the two classes of Preference capital are shown in two sums, and the interim and final Ordinary dividends separately, the four amounts being aggregated.

*Cannon Holdings* produces an account which is a little masterpiece of condensation. The picture could have been improved by amending the note to state that from the trading profit of £535,802 certain specified items have been accounted for in arriving at the profit before tax. As may be gathered, the company starts the narrative with the profit before tax and does not give a trading profits figure. Instead depreciation, emoluments of directors and investment income are shown separately, and are not even aggregated.

This system of starting with a profit subject only to tax is by no means uncommon, and there is nothing to be said against it if the practice suggested above is adopted. The persistent unwillingness of many companies to state categorically what trading profits are, although the figure can be arrived at by simple addition, is difficult to understand.

### "The Accountant" Annual Awards

Our contemporary *The Accountant* announces that it will make two awards in 1955 in its competition for reports and accounts. The awards will be given for the best reports and accounts laid before companies in general meeting within the year which ended on December 31, 1954. Particular importance, it is stated, is attached to the adequacy of the information given and its presentation. Companies entering for the competition should send copies of their reports and accounts, and any chairman's statement circulated with them, to the Secretary, *The Accountant* Annual Award, 4 Drapers Gardens, London, E.C.2, not later than January 31, 1955.

### Co-operative Ideas on Accounts

The *Co-operative Union* has produced an



excellent brochure (price 2s net) entitled *Balance Sheet Presentation*. It was prepared essentially for the retail co-operative societies, but contains much that is of value to the compilers of company accounts. The greatest stress is on typography and layout, and those who encounter for the first time the points made will appreciate that they are entering an intriguing and stimulating area of interest where the power of print takes on a new significance. There are no specific recommendations on the compilation of the accounts, but there are already available many examples of excellently compiled accounts.

The foreword to the brochure states:

The judges in the Co-operative Union's advertising awards scheme pointed out in 1953 that most of the balance sheets submitted were of a deplorably low standard, looking, they said, "as though they had been printed to standards set generations ago, which have simply been perpetuated year by year, there being no change in form other than the actual figures. We doubt in such circumstances if they can be of much interest to their readers."

Time and time again the writer has come across this same consistency of mediocrity in the accounts of public companies—but his experience has been

tempered, increasingly frequently in recent times, by perusing accounts and reports of companies which have suddenly seen the light and have revolutionised layout, presentation and typography. The Co-operative Union has published its report in the hope that co-operative societies and their printers will be stimulated to improve the standard of accounts. If the response is as gratifying as that which has attended similar admonitions in the company world during the past two or three years the authors of this valuable brochure will surely consider themselves handsomely rewarded.

## The Month in the City

### December Recession

The month of December has answered at least one of the questions which were occupying the attention of brokers and investors at its commencement: the recession in industrial Ordinary shares which set in early in November has already lasted longer than any of its recent predecessors. In mid-December, after considerable fluctuations, the index for this type of security was still over four points below the peak touched on November 4. The longest previous lapse between peaks had been less than a calendar month. At the time of writing, with the exception of established gold mines all classes of securities were well down on the month, although above the worst of the intervening period. In the case of the Funds it was necessary to go back five, and of other fixed interest securities three months to find levels equally low. At that time also there was still common talk of a rise in Bank Rate, although the exceptional weakness of sterling on New York seemed to have passed. The real factor of importance in mid-December was that the difference between short term rates in London and New York had helped to cause a rise in the London running rate for Treasury Bills of somewhat over 3s per cent in four weeks to almost 1½ per cent. According to the indices compiled by the *Financial Times*, the changes between November 17 and December 17 were: in Government securities from 106.37 to 104.18; in other fixed interest securities from 118.09 to 116.68; in industrial Ordinary shares an improvement from 177.4 to 182.7 against 179.2 in late October; and in established gold mines a further decline from 94.95 to 93.65. At this

point a recovery had set in which seemed to affect every market, but the rise in the Funds was quickly reversed.

### Progress in Steel

At the time of writing nothing has been heard of any further sale by the *Realisation Agency* to the public, but three modest operations have been completed privately; namely, the resale of the *Birchley Rolling Mills* to the *Wolverhampton Steel and Iron Company* and of that concern to its old parent *T. W. Ward Ltd.*; and the resale of *Lilleshall Iron and Steel* to its parent company of similar name. The first two of these sales were done at the vesting price but there was a loss of some 25 per cent to the Agency on the last sale. Meanwhile, *Stewarts and Lloyds* have produced preliminary figures which show an increase of almost 15 per cent on the prospectus estimate of available profits. This rise was due to the continued overseas demand, which lasted longer than the directors had dared to expect. There is no official information on the present position. It is believed that exports, especially to oil companies, are still very good but that the outlook remains uncertain. Relief from E.P.L. and investment allowances reduce the tax provision and it has been possible to finance over £6 million of addition to net assets with virtually no call on bank loans. The *United Steel Companies* have also produced their first accounts since the resale and these show a modest rise in total profits—those of S. & L. were actually a shade lower—and an increase in Ordinary dividend from just over 9 per cent to the expected level of 10 per cent. Both these operations should help

forward the sale of a further section of the industry to the public.

### Co-Partnership

Long enough ago Mr Speedan Lewis, of the London firm of *John Lewis*, instituted a partnership scheme which, after some vicissitudes, has now reached very respectable dimensions. Since then many other schemes, not all successful, have been initiated by firms large and small. One of the latest to come to fruition is a very ambitious one instituted by *Kalamazoo* shortly after the war, which paid its first dividend towards the end of last month. The *Kalamazoo Workers' Alliance* was formed to hold shares, given by the founders of the business or issued to a holding trust at par. The trust held initially some 30 per cent of the equity. For four years the total income was used in paying off the loan raised to purchase the original shares not given and to buy more shares. It now holds some 40 per cent of the equity and it is apparently planned to secure the whole, since a fraction of the growing income is allocated each year to such purchases. The concern is of moderate size and the amount received by employees varies with salary and length of service; but apparently the amounts range up to something like £100 per annum, which is by no means a negligible contribution to income.

### A New Issue Boomlet?

This seems an appropriate moment to take stock of the year's developments in the very roundest figures and to take a glance into a none too certain future. The year 1954 opened under the fear of ill effects of an American recession, which failed to materialise because Europe staged a marked recovery. The result was that, whereas 1951 and 1952 were years of stable values for industrial equities

and a fall in fixed interest securities, and 1953 marked a modest rise in the first and a recovery in the second, 1954 has seen a continuance of the rise in fixed interest securities and a boom in industrial equities which brought a rise at one time four times as large as that of 1953. There has been some reaction since the peak in all sections. This probably owes more in equities to a growing realisation that a new issue boomlet is possible than to the fears of a higher Bank Rate, of which there has been so much talk.

This may or may not be a just assessment of the current position, but it is at least evident that some large investment houses are looking for a marked increase in new issues next year. All the indications are at the moment that the response to investment allowances has been considerable and that the desire to re-equip or to expand has been growing as industrial productivity and prosperity have been increasing. This year, 1955, will see the beginning of payments for buildings put into construction over the past eighteen months and for plant and machinery ordered over a similar period. In the past two years the figures of United Kingdom investment through new issues on the stock exchanges have risen by about one-fifth, which is perhaps not much more than the rise in the cost of plant over that period. It is now expected that there will be a more substantial expansion in the quantities of fixed capital formation. The problem for investors is whether a further rise in national saving will exceed or fall short of the money value of this expansion, or whether it will just keep in step.

While there is little doubt that investment by industrialists has already expanded in quite marked fashion, and that plans for future investment show an even more emphatic expansion, it is unfortunately not possible to be at all precise about the degree of either the actual or of the planned expansion. It is certainly high time that we had better statistics of investment in course of progress—in buildings, plant and stock. Buildings approved are no very sure guide to the amount of building being done. Machine tool orders are made public at present, but orders of other types of plant are not—though the figures for some of the types are returned to the Government for its internal purposes. As for stocks, it is extraordinary that no central statistics upon them are produced and published: the Government is now collecting figures by sample, but it is not known whether and, if so, when, reliable statistics will be published. As for planned investment, in the United

States returns are obtained regularly from businesses and the results are made known promptly. Is it too much to expect that the Central Statistical Office in this country might perform a similar service, for its own purposes, as well as for those of industry, finance and commerce? In the context of new capital issues, we should certainly be better equipped to take a view on the course of the stock markets next year if there existed reliable figures on both actual and projected investment.

## Letter to the Editor

### Decimal Coinage

Sir,—The main practical difficulty in adopting decimal coinage, namely, the rendering obsolete of much office machinery, is surely about to solve itself. With the development of electronics this is surely the time for the government to draw up a practical scheme ready to be put into instant effect at the earliest suitable occasion.

I should like to comment on two of the schemes referred to in the article in the December issue of ACCOUNTANCY. Firstly, my own favourite has always been the "Pound and Mil" because the old coins could continue to be used, the farthing becoming £1/1000 and the 3d bit £1/100 without hardship (savers of these could be warned to pay into banks by a certain date). We now mix £1/10 and £½ coins so pennies could remain £1/240 until people tired of them (which would not be long!).

If however it is desired to leave coin values unaltered (and I am attracted now by the "Hundred Halfpenny" scheme) then 4s 2d is far too small a sum for a standard unit. I suggest:

10 marks = 1 groat  
10 groats = 1 crown  
10 crowns = 1 royal

The royal would then be an ideal unit of about £2. Intermediate coins (e.g. 500 and 25 mark pieces) should be given short names preferably from *English* coinage. "Noble" and "florin" suggest themselves.

Yours faithfully,

E. R. KERMODE.

Liverpool,  
December 4, 1954.

Mr Robert writes:—

The point raised in the first paragraph of Mr Kermode's letter is an important one. Certainly the development and increasing

use of electronic computers will invalidate at least one of the objections sometimes raised against the early introduction of a decimal coinage.

The "Pound and Mil" scheme, as I mentioned in my article, is one to be most carefully considered, and if my own bias seemed in favour of the "Hundred Halfpenny" scheme, it was because researches made by the Decimal Association had produced evidence of its more widespread acceptance.

The difference between the two systems is simply that in the case of the "Pound and Mil" scheme decimalisation is effected *downwards* by sub-division of the £, whilst in the case of the "Hundred Halfpenny" scheme the process is one of *building up* from the smallest copper coin in everyday use. There is, of course, the further point that the "Pound and Mil" proposals envisage a shilling comprising tenpence and, consequently, a revaluation of the existing copper coins. This might create difficulties even under present conditions when values are changing daily.

Many different proposals have been made for decimalisation of the British coinage, and the duty of selecting the most suitable would obviously fall squarely upon the shoulders of the Government after all aspects of the subject had been thoroughly debated.

### LECTURES ON PROFESSIONAL NEGLIGENCE

The Travers Memorial Lectures at the City of London College, Moorgate, London, E.C.2, will comprise five special lectures on Professional Negligence, to be delivered by Mr. J. P. Eddy, Q.C., on Wednesdays at 5.30 p.m., from January 12 to February 9, 1955.

Mr Eddy will review leading cases, and the principles upon which they have been based, in order to explain the present state of the law. The course is intended for qualified professional men and women, and for administrators responsible for the provision of professional services.

The subjects will be as follows:

- January 12. General Principles of the Law of Negligence.
- January 19. The Law and the Lawyers.
- January 26. The Liability of Bankers, Accountants and Company Secretaries.
- February 2. The Liability of Doctors, Hospitals and Dentists.
- February 9. The Liability of Members of other Professional Bodies, and Summing up.

Tea will be available from 5 p.m.

The fee for the course, or any part thereof, is £1 11s 6d, to be sent to the Secretary of the College not later than January 5, 1955. If the course is full, enrolment may cease before that date.

## Legal Notes

### Company Law—

#### Service of Writ on Overseas Company

In *Deverall v. Grant Advertising Inc.* (1954, 3 W.L.R. 688), D. issued a writ against G., an American company, and served this writ by delivering it at an office in London. At this office business was carried on by an English subsidiary of the American company, but D. contended that business had also been carried on there by the American company, although it had ceased before the service of the writ. D. therefore claimed that, as the American company was not registered in England, service of the writ was good under Section 412 of the Companies Act, 1948, which provides that, if an overseas company which has established a place of business in Great Britain is not registered, "a document may be served on the company by leaving it or sending it by post to any place of business established by the company in Great Britain."

The Court of Appeal held that on the facts the American company had not established any place of business in Great Britain and further that under Section 412 service could be effected only at a place where business was at that time being carried on and not at a former place of business.

### Contract and Tort—

#### Time for Provision of Bank Guarantee

In *Sinason-Teicher Inter-American Grain Corporation v. Oilcakes and Oilseeds Trading Co. Ltd.* (1954, 1 W.L.R. 1394), the Court of Appeal affirmed the decision of Devlin, J., noted in ACCOUNTANCY for August, 1954 (page 318).

### Contract and Tort—

#### Conversion of Cheques

M. was the manager of three farms owned by the Marquess of Bute and, as he was authorised to do, he sent in to the Government Department concerned applications for the hill sheep subsidies to which the Marquess was entitled. M. left the employment of the Marquess and later received from the Department crossed warrants drawn in favour of "M. for the Marquess of Bute." He was then allowed by a bank to open a personal account with these warrants and

in course of time he drew out for his own use the monies so paid in.

In *Marquess of Bute v. Barclays Bank Ltd.* (1954, 3 W.L.R. 741) the Marquess successfully sued the bank in conversion for the total amount payable under the warrants. The first point taken by the bank was that the Marquess was not the owner of the warrants and so could not sue in conversion; M. was the true owner of the warrants although he would have to account to the Marquess for the proceeds. Against this the Court held that even if the Marquess was not the owner he was entitled to immediate possession and so could sue. The second point made by the bank was that M. had been allowed by the Marquess to obtain possession of the warrants and that on their face the warrants contained a representation that the money could safely be paid to M.; consequently the Marquess was stopped from denying that the money had been rightly paid to M. The Court however held that the warrants did not contain a clear representation that the money could safely be paid to M. The words "for the Marquess of Bute" ought to have put the bank on inquiry before they paid the money to M. personally. For the same reason the bank could not show that they had not been negligent and therefore could not take advantage of Section 82 of the Bills of Exchange Act, 1882.

### Contract and Tort—

#### Exceptions Clause in Contract

In *Adler v. Dickson* (1954, 3 W.L.R. 696), the Court of Appeal affirmed the decision of Pilcher, J., noted in ACCOUNTANCY for November, 1954 (page 435).

### Executorship Law and Trusts—

#### Annuities

C., who died in 1929, directed in his will that his trustees should pay to his widow one-third of the income of his residuary trust fund and "if one-third of the income of the trust fund shall in any year during the life of my said wife amount to less than £6,500 per annum free of English income and super-tax my trustees shall in that year pay to my said wife out of the income of the trust fund in addition to one-third of the income thereof such further sum as will give to her a net income for that year of £6,500 free of English income and super-tax." Until 1938 the income of the trust fund was sufficient for the widow's annuity to be paid in full and under other directions

of the will part of the balance of the income was accumulated. After 1938, owing to tax increases, the income of the whole fund was insufficient to pay the widow's annuity in full, and the question arose whether the widow could resort to the accumulated income or the income arising from that accumulated income.

In *Re Cameron deceased* (1954, 1 W.L.R. 1375), Roxburgh, J., held that on the construction of the will as a whole the testator did not intend the widow to have a continuing charge on each and every part of the income; she was merely entitled to the whole income of a particular year and could not resort to any accumulated income or any income arising from that accumulated income.

### Executorship Law and Trusts—

#### Power to Revoke Settlement

Settlors sometimes wish to reserve to themselves power to revoke a settlement with the consent of some responsible person and in *Re Hooker's Settlement* (1954, 3 W.L.R. 606) the settlement reserved to the settlor a power of revocation with the consent of a Judge of the Chancery Division. Danckwerts, J., held that he had no jurisdiction to deal with the matter: it was an attempt to make the Judge an arbitrator without his consent. Parliament could impose upon the Court a duty to exercise a discretion but a private person could not do so.

### Insolvency—

#### Transfer of Proceedings to High Court

A petitioning creditor wished to have proceedings in bankruptcy taken against a debtor to set aside certain transfers. The trustee was unwilling to take proceedings unless the creditor gave him an indemnity for costs and the creditor had not the means to give this indemnity. Now, the bankruptcy was in the County Court and as long as it remained there the creditor could not get legal aid. Accordingly she applied to have the proceedings transferred to the High Court where she could get legal aid.

In *Re Crossley* (1954, 1 W.L.R. 1353), Upjohn, J., dismissed her application on two grounds: (a) it would not be a proper exercise of judicial discretion to transfer a case to the High Court merely because that would enable a party to obtain legal aid and (b) in any event the trustee was the only person entitled to take the proposed proceedings.



**Miscellaneous—****Criminal Law: Meaning of "Public Company"**

The case of *R. v. Davies* (1954, 3 W.L.R. 664) turned on the meaning of "public company" in Section 20(1)(ii) of the Larceny Act, 1916, which makes it an offence for any person who is "a director, member or officer of any body corporate or public company" to take fraudulently or apply for his own use or benefit any of the property of that body corporate or public company. D. was the director of a company registered under the Companies Act, 1948, as a private company. It was held that such a company was a "public company" within the meaning of the Section as it was incorporated under a public Act.

**Miscellaneous—****Promissory Notes and Hire Purchase Agreements**

In *United Dominions Trust Ltd. v. Bycroft* (1954, 3 W.L.R. 1345) the Court of Appeal dismissed an appeal from the County Court decision noted in ACCOUNTANCY for October, 1954 (page 404). B. had entered into an agreement with M. Ltd. for the hire purchase of a refrigerator and at the same time signed a promissory note as collateral security for the due payment of the instalments. A dispute arose between M. Ltd. and B., who refused to pay the last few instalments. Meanwhile M. Ltd. had sold the promissory note for value to the plaintiffs, who sued B. on the note. The County Court Judge held that the promissory note was not separate from the hire purchase agreement and that if the promissory note was valid the hirer might have been subject to a liability greater than that authorised by the Hire Purchase Act, 1938: consequently the note was void between the hirer and M. Ltd. The Judge further held that, although the plaintiffs had taken the note in good faith and for value, they had known at the time of the terms of the hire purchase agreement. Therefore they had notice of the defect in the note and were unable to sue upon it.

In the Court of Appeal the plaintiffs conceded that the note was not separate from the hire purchase agreement and that on the facts the plaintiffs could not sue on the note if M. Ltd. could not have sued on the hire purchase agreement. They contended, however, that the promissory note was not invalid, for it could not have imposed on B. a greater liability than that contained in

the hire purchase agreement: the right of the plaintiffs as holders to sue upon the note was limited by the conditions in the agreement to which the note had originally been attached. The plaintiffs then went on to argue that M. Ltd. could have sued B. under the hire purchase agreement and consequently they themselves were entitled to sue B. on the note.

The Court refused to decide whether this argument was sound or not, for they held that this was a new point of law which had not been raised in the County Court and could not now be raised in the Court of Appeal.

**Miscellaneous—****Accountants' Criminal Offences**

During the last few months two accountants have been convicted on indictment. In *Regina v. Wake and Stone* H. C. Stone was charged under Section 12 of the Fraud (Investments) Act, 1939, which provides that:

Any person who by any statement, promise or forecast which he knows to be misleading, false or deceptive, or by any dishonest concealment of material facts, or by the reckless making of any statement, promise or forecast which is misleading, false or deceptive induces or attempts to induce another person to enter into or offer to enter into any agreement for, or with a view to, acquiring, disposing of, subscribing for, or underwriting securities . . . shall be guilty of an offence . . .

H. C. Stone was acquitted of any fraud but convicted on one count of recklessness in connection with a prospectus. The prospectus had contained an auditors' report giving the valuation placed by the company's officials on the stock and work-in-progress: it was admitted that this valuation was higher than the true value and "false, deceptive and misleading." The Judge in his summing up told the jury that it was not necessarily correct for an auditor to accept the explanation of a director without going further and checking the explanation in some way; all the circumstances must be considered and if an auditor neglected to take the reasonable steps that he ought to have taken then he was being careless; and if in all the circumstances he was careless to such an extent as to deserve punishment then he was being reckless. Whereas failure to be reasonably careful and skilful can amount to a civil offence, recklessness (or dishonesty) must be proved for a criminal charge to be sustained. The

case is the first on record in which an auditor has been convicted of recklessness under the Act of 1939. H. C. Stone's appeal has been dismissed.

In the other case, *Regina v. King and Goodwin*, J. H. G. Goodwin, one partner in a firm of accountants, was acquitted on all counts but J. L. Goodwin, another partner in the firm, eventually pleaded guilty and was convicted on three charges of making false statements relating to the profit and business of a company, as a result of which the Inland Revenue lost tax of £12,000. No point of law was involved.

**Accountancy****BINDING OF VOLUME 65**

The index to Volume 65 (January—December, 1954) is enclosed with this issue of ACCOUNTANCY.

A grey binding case with white lettering will again be obtainable from T. Whittingham & Co. Ltd. They will bind subscribers' copies at a charge of 15s, or supply the binding case only at 5s, post free. Orders should be sent direct to T. Whittingham & Co. Ltd., Pixmore Avenue, Letchworth, Herts., accompanied by the appropriate remittance, the twelve monthly parts and the index. If the monthly parts are posted separately from the order and remittance, a note of the name and address of the sender should be enclosed.

Any missing parts should be obtained from the offices of ACCOUNTANCY at Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2 and included in the parcel sent to the binders. As the cases are of a standard size, complete sets only can be bound.

No cases are available for earlier years and orders cannot be accepted for any year earlier than Volume 65 (1954).

## Publications

**National Income and Social Accounting.** By H. C. Edey and A. T. Peacock. Pp. 222. (*Hutchinson's University Library*: 8s 6d net.)

THE TECHNIQUE OF what is described as "overall economic planning" nowadays enjoys the support of all political parties, even if few of their members have any real understanding of the national income analysis underlying the technique. Even the economist who, dutifully, has studied the official national income estimates over the years—and who, fearfully, has watched the flimsy White Paper of 1941 grow into the present substantial annual Blue Book—finds great difficulty in keeping pace with developments in social accounting. The student reading for an honours degree in economics has been virtually lost from the outset, for the Blue Books are incomprehensible to him, the simplified expositions of the estimates are little more than prolegomena, and the articles in the learned journals are usually too specialised. This gap in the literature has now been filled and the student in particular will thank Mr. Edey and Mr. Peacock for filling it.

Their book falls into three parts of roughly equal length. The first covers the basic principles of social accounting: it illustrates simple accounting systems in matrix form and says something of the input-output approach. The second part provides more mixed fare: the problem of measuring real changes in the national product is followed by a discussion of the inflationary gap and a fairly difficult introduction to the Leontief input-output analysis. The final section is devoted to a further survey of the fundamentals of national income accounting, in which the authors consider the measurement of changes in asset holdings of the private and public sectors. At the end a brief bibliography, which for no apparent reason omits Stone's well-known United Nations memorandum, offers suggestions for further reading.

For this reviewer the main feature of the book is the lucid style and the clear presentation of what for many students is a rather boring subject. The persistent use of the first person plural is unfortunate and emphasises what is perhaps a too didactic approach, but otherwise the treatment is free from jargon and it can certainly be understood by the reader who is innocent of economics and statistics. How much of it is likely to

interest him is debatable, since, except for the technical issues, the book is more than a primer. It might be argued that a simpler version of Chapter 7, on budgetary policy, would have made a more interesting introduction to the subject than the bare bones of accounting systems, which are made to serve that purpose.

The reviewer would set this book as compulsory reading for all honours students in economics, subject to its being read in conjunction with the recent study *British Economic Statistics* by Professor Carter and Mr. Roy. The reason for the proviso is that the enthusiasm and skill of the authors of *National Income and Social Accounting* in handling their data and discussing its applications might lead the unsophisticated reader, despite many warnings, to the conclusion that he was being presented with a ready-made method of economic planning. The outstanding weakness of current national income analysis lies not in method, but in the imperfections of much of the data.

Nevertheless, the book is indeed an excellent piece of work which fully maintains the standard set by previous volumes in this useful and inexpensive series.

A.R.I.

**Consolidated Accounts Simplified.** By R. Byrne, A.C.A., A.S.A.A., F.C.I.S. Pp. 110. (*Students' Publications Ltd.*, 9 Orchard Drive, Woking: 5s net; by post 5s 4d.)

MANY TEXTBOOKS have been written on the subject of consolidated accounts, but one more is always welcome if it helps to throw light upon this rather abstruse subject and shows in a simple manner the processes by which the balance sheets of the component companies are amalgamated into one consolidated balance sheet. This little book makes a very bold attempt to achieve these ends. It is admittedly written for the student, whose practical knowledge and experience is probably very limited and who must rely upon the study of theory to gain the knowledge necessary to enable him to satisfy the examiner. The text is clear and easily understandable, and the book is liberally supplied with worked examples which help considerably in explaining the principles involved.

Some of the more difficult points of consolidation could have had a little fuller treatment. The question of reserves for future income tax, for example, is dismissed in one paragraph, whereas in practice a rather careful and

## Books Received

**Shares of No Par Value—The Departmental Committee's Report.** By W. T. Baxter and L. C. B. Gower. Pp. 37. A revised reprint of articles in *ACCOUNTANCY* for May, June and July 1954. Practice Notes No. 29. (*Society of Incorporated Accountants*: 4s net.)

**A Current Digest of the Law Affecting Accountancy.** Third issue, January 1—April 30, 1954. Pp. 107. (*Society of Incorporated Accountants*: 5s net.)

**Financial Management.** By G. S. Nelson, A.S.A.A. Pp. 6. 2s. **Incentives for the Clerical Worker.** By Geoffrey J. Mills, A.C.I.S. Pp. 8. 2s. **Mechanisation Present and Future.** By Dudley W. Hooper, M.A., A.C.A. Pp. 38. 5s. **Statistics and the Accountant.** By W. F. Harris, A.S.A.A. Pp. 38. 10s. Practice Notes series. Papers presented at the Management Accounting Course, September 1954. (*Society of Incorporated Accountants*.)

**Tolley's Income Tax Chart-Manual 1954-55.** Thirty-ninth Edition. Pp. viii+124. 12s 6d net. **Tolley's Synopsis of Profits Tax.** Eighteenth Edition. Pp. 7. 5s net. **Tolley's Synopsis of Estate Duty.** Fifth Edition. Compiled by a Barrister-at-Law. Edited by Kenneth Mines, F.A.I.A., F.T.I.L., and L. E. Feaver, A.S.A.A., F.C.I.S. Pp. 40. 5s 6d net. **Tolley's Income Taxes in the Channel Islands and Isle of Man.** Compiled by Kenneth

Mines, F.A.I.A., F.T.I.L., and L. E. Feaver, A.S.A.A., F.C.I.S. Pp. 22. 5s net. **Tolley's 1954-55 Synopsis of Taxation in the Republic of Ireland.** Compiled by Kenneth Mines, F.A.I.A., F.T.I.L., and L. E. Feaver, A.S.A.A., F.C.I.S. Pp. 14. 2s 6d net. (*Chas. H. Tolley & Co.*, 15 High Street, Croydon, Surrey, and 33 Nottingham Place, London, W.1.) See also page 22.

**Income Tax in the Central African Federation (The Federation of Rhodesia and Nyasaland).** By A. S. Silke, M.COM., C.A.(S.A.). Pp. xviii+574. (*Juta & Co., Ltd.*, P.O. Box 30, Cape Town. 75s net including voucher for Commentary on the 1955 Taxation Legislation by A. S. Silke.)

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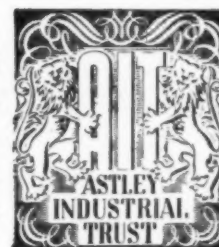
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sometimes difficult handling of capital and revenue reserves is demanded. The problems caused by holdings in one subsidiary by another and the section on the consolidated profit and loss account could have been somewhat expanded.

P.E.H.

**An Estate Duty Notebook.** By G. Boughen Graham, LL.B., Barrister-at-Law. Pp. xvi+135. (*The Solicitors' Law Stationery Society Ltd., London: 17s 6d net.*)

THE PURPOSES of this book are fully set out in the preface—it is not a student's textbook, nor an all-embracing treatise on the sole remaining impost now leviable on the estates of deceased persons. It is both a notebook dealing with everyday estate duty problems for the assistance of newly-qualified solicitors and probate clerks, and a memory aid for experienced practitioners. For the less usual facets of the subject, or particular problems requiring more detailed information, one of the three standard works (*Dymond, Green and Hanson*) must be consulted.

But the work is also one which could usefully be perused and kept as a guide by accountants dealing with trust ac-

counts, for it concisely shows the answers to the problems which confront the lawyer in preparing the estate duty affidavit.

This compact book contains only one hundred and twenty pages of reading matter, although the whole of the usual estate assets, liabilities and other deductions are dealt with. A short preface, and tables of contents, cases and Statutes precede the reading matter. Appendix I shows the rates of estate duty (including "agricultural" rates). Appendix II outlines the various Inland Revenue affidavits to lead to grants of representation. A fully comprehensive index (eleven pages) enhances the worth of this notebook as a work of reference.

Chapter VIII (on policies of life assurance) contains a particularly interesting and up-to-date example of the estate duty chargeable on life policies of varying classes of entitlement, including Married Women's Property Act policies, and the effect of Section 33(3) of the Finance Act, 1954, in regard to deaths on or after July 30, 1954. Statute law is fully up-to-date throughout.

Chapter X, on gifts *inter vivos*, contains very useful information about those gifts which are liable to duty and

those which are exempt, including the incidence and accountability of the duty.

In Chapter II, when dealing with the apportionment of dividends on the death of a life tenant, the author gives a curious example of dividends on Preference shares being paid half-yearly on April 1 and October 1, the year-end being December 31. And the example of the apportionment of dividends on Ordinary stock does not make it clear that whilst the deceased life tenant's estate may be credited with some portion of dividends received after his death, no dividends received during his life-time can be apportioned to the later period. These difficulties must inevitably arise where an author seeks brevity. A similar query arises on the treatment of interests in expectancy—"What happens if, on the second death, the value has decreased?" Arithmetical errors occur in the examples dealing with marginal relief (agricultural property), quick succession relief, and small estates. There are other slight errors in wording. Such criticisms are, however, minor points of detail. The author is to be congratulated on a useful summary of the subject of estate duty, and on achieving the object set out in his preface.

J.R.

## THE SOCIETY OF Incorporated Accountants

### Accountants and Public Service

THE INCORPORATED ACCOUNTANTS' District Society of Liverpool held a dinner at the Adelphi Hotel, Liverpool, on November 18. Mr. J. L. Hughes, President of the District Society, occupied the chair, and the guests included The Right Hon. Viscount Swinton, C.B.E., C.H., M.C. (Secretary of State for Commonwealth Relations); the Lord Mayor of Liverpool (Alderman A. Griffin); Mr. Bertram Nelson (President of the Society of Incorporated Accountants) and Mr I. A. F. Craig (Secretary); the Mayor of Birkenhead (Alderman Hugh Platt, J.P.); Professor D. R. Seaborne Davies, M.A., LL.B. (Dean of the Faculty of Law, University of Liverpool); Professor F. E. Hyde, M.A., PH.D. (Chadwick Professor of Economics, University of Liverpool); Mr E. N. Macdonald, D.F.C. (Vice-President, Liverpool Society of Chartered Accountants); and representatives of the professional bodies, commerce, and the Inland Revenue.

Mr J. L. Hughes (President of the District Society) proposed the toast of the City of Liverpool. He coupled with it the name

of the Lord Mayor, Alderman Griffin, who had a great record of public work, especially for the hospitals. Mr Hughes hoped soon to see the war-devastated areas of the city completely rebuilt. Liverpool had a history of which its citizens should be proud, and they should make its appearance worthy of that history.

The Lord Mayor of Liverpool (Alderman A. Griffin), in response, thanked Mr Hughes for his remarks and the District Society for its hospitality. He agreed that the work of rebuilding should be pressed forward in a worthy manner.

The Right Hon. Viscount Swinton, C.B.E., C.H., M.C. (Secretary of State for Commonwealth Relations) proposed the toast of the Society of Incorporated Accountants. He said that accountants were indispensable in public or private life. Few citizens could make out their income tax or sur-tax returns without their help. No commission or enquiry could be constituted without an accountant. The Lord Mayor had referred to voluntary service: probably no other profession gave more valuable unpaid service to the community than the accountants.

Throughout his public life he had been indebted to their profession: his mind went

back to the time when he was President of the Board of Trade, and accountants played a leading part in connection with the Company Law Committee under the chairmanship of Mr Wilfred Greene. The late Sir James Martin was a member of the Committee. Its report was of the utmost value in drafting the Companies Act which followed, for which he (Lord Swinton) was responsible. Then he thought of the Companies Act of 1948. The Government and the Opposition co-operated closely during the passing of the Bill, but throughout they had the closest consultation and advice from accountants, and if the Act in its final form was sound and practical, then it owed a lot to their profession.

Mr. Bertram Nelson (President of the Society of Incorporated Accountants) replied. He observed that that evening was a very happy occasion for him, as he was the guest of his own Liverpool Society with which his family had been associated for about sixty-five years. His first duty was to convey to the President, the Secretaries and Committee of the Liverpool District Society the best wishes of the Council and its gratitude for the great work they were doing.

They were honoured indeed to have Lord Swinton with them and they were mindful that he was an Honorary Doctor of Laws of their own University. Lord Swinton has spoken about the progress of their profession. There was an increasing scope for the work of accountants. There was continued

progress in management accounting. Examinations were becoming increasingly interesting and more interest was taken in research and education. There were very cordial relations between the recognised accountancy bodies in the United Kingdom and overseas. He had recently returned from a visit to the U.S.A. and Canada, where the Society was held in high regard.

Progress was measured by milestones and for many accountants the next milestone was the registration of the profession. Public interest was ill served in circumstances where any man, however lacking in character, training and experience, could commence practice as an accountant. Public interest was ill served when that man, in conjunction with others of no repute, could set up an accountancy body with a high-sounding title and purport to confer so-called degrees, distinctions and initials which were spurious and misleading.

A President travelled much and saw many cities. Liverpool was a much better place than it was thirty years ago, having much less poverty and many new industries, and they could rejoice daily in seeing the progress of new buildings. If progress was to be maintained in Liverpool, three steps would be necessary.

First they must improve the appearance of the centre of the city.

Secondly, more must be done to encourage small growing businesses. How much could happen if some of the money flooding into the Stock Exchange could be used to build small shops in the centre of the city and to build small factories which could be let. What benefits would come if a few wealthy business men set aside funds to stimulate small businesses known to them. Thirdly, they needed increased recruitment for voluntary public service. Liverpool had a magnificent record, but the average age was now high.

Mrs B. Bramwell McCombe, M.A., B.COM., A.S.A.A. (Joint Honorary Secretary of the District Society) proposed the toast of "Our Guests," and Mr E. N. Macdonald, D.F.C., F.C.A. (Vice-President of the Liverpool Society of Chartered Accountants) responded.

## Anomalies in Taxation

MR S. G. T. HOLMES, President of the Incorporated Accountants' District Society of Devon and Cornwall, presided at a dinner held at the Grand Hotel, Plymouth, on November 26. The guests included the Deputy Lord Mayor of Plymouth (Councillor J. Folley), Mr Bertram Nelson (President of the Society of Incorporated Accountants) and Mr I. A. F. Craig (Secretary), Mr K. C. Brian (Vice-president of the Plymouth Law Society), Mr C. A. Winterton and Mr S. McClelland (Inspectors of Taxes), Mr R. D. Luscombe, solicitor, and representatives of other professional bodies.

The toast of "The City of Plymouth" was proposed by Mr F. R. Balme, A.S.A.A., vice-president of the District Society. He spoke of the tremendous strides the city had made in its post-war reconstruction. The Cornwall Chamber of Commerce, of which he was secretary, had worked amicably with the Chamber of Commerce for the port of Plymouth in negotiations for the building of a bridge over the Tamar. The bridge would be a tremendous boon, not only to Plymouth but to the whole of Cornwall. The ordinary men and women of Plymouth suffered greatly during the war, but had faith in the future of their city, a new city which was going up and would be an inspiration to the rest of the country.

The Deputy Lord Mayor of Plymouth (Councillor J. Folley), in his response to the toast, confessed to not knowing a lot about accountancy, but said he assumed that members of the profession kept their clients within the bounds of propriety and, conjointly, kept everyone "a day or two off National Assistance." The Society was specially welcome to Plymouth because of the principles on which it was founded, and the help and guidance it gave, especially in civic affairs.

Mr K. C. Brian (Vice-President of Plymouth Law Society) proposed the toast of "The Society of Incorporated Accountants." He observed that Mr Nelson was one of the Society's youngest Presidents, and was well known for his work in many spheres. The Society numbered about 10,000 members, but, like the Navy, it was something of a Silent Service. Incorporated Accountants could not have placards or neon lights outside their business premises, and were not allowed to advertise or to "puff" their wares, but they did good service to the community all over the world.

Mr Bertram Nelson (President of the Society of Incorporated Accountants) responded. He noted that the occasion marked the inauguration of the District Society's presidential badge, which was being worn with distinction by Mr. Holmes.

Certain recent judicial pronouncements had referred to what the Master of the Rolls had described as "grave misplaced fiscal enthusiasm." In this country we enjoyed unique relations between taxpayers and the Inland Revenue, but there had been signs that this was being impaired. The case of a clergyman who wanted to renew a Bible or prayer books but was not allowed that expense was an instance that something was wrong. If a Plymouth man were invited to join the board of a London company, he would not be allowed the expense of travelling to London to attend Board meetings. Inspectors of Taxes were having to administer rules that by no stretch of imagination could be regarded as fair, and he hoped that before long there would be legislation to make the rules more reasonable. Purchase tax was another sore point: there were so many anomalies which had a dislocating effect on trade.

Another type of enthusiasm was also of importance to the accountancy profession.

One of the original Objects of the Society was "to promote in commercial circles a higher sense of the importance of systematic accounts and to encourage a greater degree of efficiency in those engaged in book-keeping." The audit of many small businesses was incomplete if it did not encourage the interest of those engaged in book-keeping and if it did not lead to the appreciation of the value of accounts.

Mr Nelson also referred to the enthusiasm of the officers and committees of Branches and District Societies, on whom so much of the work of the Society depended.

Mr S. G. T. Holmes (President of the District Society) proposed the toast of "The Guests." Mr Nelson, he said, had an honoured name in accountancy and his uncle before him had been a President of the Society. Under his leadership the Society could look forward to a successful future. They also welcomed the Society's Secretary, Mr Craig, on whom they could always count whenever they needed assistance. Mr Winterton and Mr McClelland were recent arrivals in Plymouth: it was not often that Inspectors of Taxes and accountants were on the same side of the table!

Mr S. McClelland (Inspector of Taxes) and Mr R. D. Luscombe (solicitor) responded to the toast.

## Simplification in the Professions

MR H. F. INGRAM, President of the Incorporated Accountants' District Society of Nottingham, Derby and Lincoln, presided at a dinner held by the District Society at the Victoria Station Hotel, Nottingham, on November 12. The company included the Lord Mayor of Nottingham (Councillor S. Hobson); Mr Bertram Nelson (President of the Society of Incorporated Accountants) and Mr I. A. F. Craig (Secretary); His Honour Judge T. M. Backhouse; the Sheriff of Nottingham (Councillor L. Mitson); the Mayor of Derby (Councillor Alec Ling); the Bishop of Southwell (the Right Rev F. R. Barry, D.S.O., D.D.); Professor L. F. Bates, PH.D., D.S.C., F.R.S. (Deputy Vice-Chancellor, University of Nottingham); Mr Martin Redmayne, D.S.O., M.P.; and representatives of other professional bodies.

His Honour Judge T. M. Backhouse proposed the toast of the Society of Incorporated Accountants. He said the one thing which their profession had not yet achieved was statutory authority to prevent people who were not qualified from putting up a board and calling themselves professional accountants. He urged the Society and its District Societies to strive for this.

Mr Bertram Nelson (President of the Society of Incorporated Accountants), responding, contrasted the complexities of war-time price controls with the more recent supply-demand relationship and the price



mechanism. He suggested that, built into an economic system, there must be processes directed towards simplicity, as well as processes resulting in increased profundity and complexity, in the same way as the incredible complexities of mind and memory were made tolerable by acquired habits—the effortless custody of automatism.

It was important that professions should consider methods of simplification, and Mr Nelson suggested that three principles could be distinguished. The first was that exposition should be plain, as well as deep—that accountants should do more to make themselves intelligible, in published accounts and in statements for management. In taxation matters, intelligibility could be improved if Finance Bills were preceded by explanatory memoranda (as had been done with Statutory Instruments during the war) and if in every Finance Bill some subject could be codified and classified, so that in course of time the whole taxation law would be modernised. The second principle related to a right view of error—that in human endeavours the purpose was progress and not the setting-up of complex safeguards to eliminate all possibility of error. Mr Nelson suggested that a less critical view should be taken of the errors of civil servants and the nationalised undertakings, if those errors were associated with adventures and experiment. The third principle was de-centralisation: Mr Nelson instanced the complexities which arose in the local government because of over-centralisation on Whitehall.

Mr J. W. Mee, F.S.A.A., J.P., proposed the toast of the City of Nottingham.

The Lord Mayor of Nottingham (Councillor S. Hobson) responded.

Mr P. W. Skinner, F.S.A.A., proposed the toast of the guests, which was acknowledged by the Lord Bishop of Southwell (the Right Rev F. R. Barry, D.D.) and by Mr Martin Redmayne, D.S.O., M.P.

The toast of the Chairman was honoured on the motion of Mr C. F. Carlisle, F.S.A.A.

## The Future of British Industry

THE INCORPORATED ACCOUNTANTS' Birmingham and District Society held a dinner at the Queen's Hotel, Birmingham, on November 29, under the chairmanship of its President, Mr Percy G. Stembridge, F.S.A.A.

The guests included the Lord Mayor of Birmingham (Alderman J. R. Balmer) and the Lady Mayoress; The Hon. Mr Justice Donovan; Professor Thomas Bodkin, M.R.I.A., M.A., D.LITT., and Mrs Bodkin; Mrs Stembridge; Mr Bertram Nelson (President of the Society of Incorporated Accountants) and Mrs Nelson; The Bishop of Aston (the Rt. Rev. C. G. St. M. Parker); Rev. R. G. Lunt, M.C., M.A. (Chief Master, King Edward's School) and Mrs Lunt; Mr I. A. F. Craig, O.B.E. (Secretary of the Society of Incorporated Accountants); and representatives of other professional bodies, commerce, and the Inland Revenue.

The toast of Her Majesty the Queen was proposed by the chairman.

Mr Stembridge suggested that as the dinner was being held on the eve of Sir Winston Churchill's birthday, they might rise and drink to the health of the Prime Minister, to whom on behalf of all members of the District Society he had sent a telegram of good wishes.

The Hon. Mr Justice Donovan, proposing the toast of "The City of Birmingham," said that the fame of Birmingham's products was due to the industry, integrity, enterprise and vision of its people. Birmingham citizens would have need of their virtues in the future, for the future of the world was more uncertain than ever it was.

The Lord Mayor of Birmingham (Alderman J. R. Balmer) in his reply stressed the importance of the home life of the citizens. The test of a good home, he said, was whether the dictionary and the Bible were well and truly thumbed and rather the worse for wear—or were they difficult to find?

Professor Thomas Bodkin proposed the toast of the Society of Incorporated Accountants. He referred to the great architectural beauty of the Society's Hall in London.

Mr Bertram Nelson (President of the Society of Incorporated Accountants), replying to the toast, referred to the "blind spots" which afflict every generation. He suggested that, in economic matters, there were two main causes. The first was the pursuit of incompatible aims—the extremes of nationalism and internationalism, for example. The President of the Board of Trade had recently referred to another choice to be taken by British industry—"whether we want to restrict trade or to expand it"—and had said that "the United Kingdom, both Government and industry, stands solidly upon the side of expansion." In working out such a policy, it was essential that progress should be properly timed, that there should be reciprocity from other nations and that the dangers should be fully discussed. It would, however, be disastrous if some sections of British industry, some trade associations and some trade unions adopted the policy of restriction while others adopted the policy of expansion.

The second cause of blind spots was the tendency to pursue the practical effects of academic theories long after the theories themselves had been discarded—such theories, for example, as that the industrial countries had reached maturity and, indeed, stagnation, that heavy industries in this country were finished and that the great period of progress was over. These theories were now discarded but their practical effects continued. In fact, there were good reasons to believe that the best was yet to be.

Mr Percy G. Stembridge, president of the District Society, proposed the toast of the guests, and responses were made by the Bishop of Aston (the Right Rev. C. G. St. M. Parker) and Rev. R. C. Lunt, M.C., M.A. (Chief Master, King Edward's School, Birmingham).

## Simpler Accounts

A DINNER WAS HELD by the Incorporated Accountants' District Society of Sussex at the Royal Pavilion, Brighton, on December 3. The President of the District Society, Mr G. R. Crone, presided.

The guests included the Mayor of Brighton (Alderman W. G. Dudeny); The Right Hon. Lord Wilmot of Selveston, P.C.; Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A. (Vice-President of the Society of Incorporated Accountants); Sir Leslie Bowker, K.C.V.O., O.B.E., M.C.; Mr Bernard Zagorin (Assistant U.S. Treasury Representative in the United Kingdom); the Mayor of Hove (Alderman A. H. Dilley); Canon D. H. Booth, M.B.E., M.A. (vicar of Brighton); Mr Leslie J. D. Bunker, LL.B. (President, Sussex Law Society); Mr A. A. Garrett, M.B.E.; and other representatives of the professions and of the Inland Revenue.

The Right Hon. Lord Wilmot of Selveston, proposing the toast "The Society of Incorporated Accountants and the Accountancy Profession," spoke of the report, published ten years ago, of the Cohen Committee on Company Law, of which he was a member. One of the problems remaining was the question of shares of no par value, for which today there was a considerable public demand.

They were agitating, and quite rightly, for simpler published accounts. He would like to see a somewhat simplified version of the auditor's certificate. Perhaps it would be a good idea to insist upon half-yearly accounts. But the worst abuses and the monstrous frauds which were practised upon the small shareholders in the bad old thirties had been brought to an end, largely by the action of the accountancy profession.

The preoccupation of accountants called upon to advise business executives was now taxation and the valuation of assets. That was a very necessary function, but he suggested that there was a much wider field which needed to be filled and could only be filled by accountants. The role of watchdog, guardian and policeman was not enough. There must be the role of guide and friend and far-seeing philosopher: the accountant must have his eyes not only riveted on the past but straining into the future. We were entering upon an era of potential industrial power beyond our dreams. The wisest counsel was needed, and where were they to look for it if not among the professional advisers who had carried them through the stormy seas of the past?

Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A. (Vice-President of the Society of Incorporated Accountants), in reply, referred to Lord Wilmot's suggestion that auditors' reports should be simplified. It was easy, he said, to become slaves of convention and custom. How often did they sit back and think out a problem? Were they not likely to make a decision, perhaps rightly, possibly wrongly, based on the con-



vention they had been trained to accept? How often did they fail to analyse the problem and solve it by a process of logical reasoning? The profession was fortunate in having at least two of its members—Professor Bray and Professor Baxter—who devoted part of their time to research and thinking. Practice should be in advance of precept. They should constantly review their methods and sometimes examine them fundamentally in the light of changing circumstances. They should live the present rather than rely upon the past.

Mr F. V. Arnold, F.S.A.A., proposed the toast of "Our Guests." He referred with pleasure to the presence of Mr. Zagorin and commented upon the happy relations between the profession in this country and in America.

Mr Bernard Zagorin (Assistant U.S. Treasury Representative in the United Kingdom) said that since he last came to England in 1949 there had been a remarkable advance, in which accountants had their fingers always on the pulse of the economy, and Americans were gratified that they had been able in some measure to assist.

Mr Leslie J. D. Bunker, LL.B. (President of the Sussex Law Society), in proposing "The Incorporated Accountants' District Society of Sussex," said he felt that many of those present were concerned not so much with the ramifications of large public companies as with the operation of their own small businesses, run by private companies, partnerships and individuals. Far too often business men and women allowed their financial affairs to be dealt with by practitioners who lacked the qualities of character, professional training and ripe experience which were guaranteed by membership of the Society and other professional bodies of accountants. He hoped that, by registration or otherwise, there might in time to come be an automatic guarantee to the layman who consulted an accountant of professional efficiency and a code of conduct.

Mr Bunker referred to the wide interests of Mr Crone and to his great contribution to the building society movement.

Mr G. R. Crone (President of the District Society) responded.

## Membership

THE FOLLOWING PROMOTIONS in, and additions to, the membership of the Society have been completed during the period October 7 to December 6, 1954.

### Associates to Fellows

ATKINSON, William Wilkinson (*Thomas Rodger & Co.*), Newcastle-upon-Tyne. BAKER, Harold Feldon (*Baker & Co.*), Northampton. BELL, Thomas (*A. J. Ingram & Co.*), Sunderland. BENSON, Robert Hardman, 41 Spring Gardens, Manchester. BULLIVANT, Harold (*Douglas, Low & Co.*), Johannesburg. BUXTON, Sydney Herbert

(*Willett, Son & Garner*), Manchester. CASTLEMAN, John Derek (*J. Castleman & Co.*), Leicester. CORRIN, John Bowes (*Baker & Co.*), Northampton. CORSCADDEN, Ernest (*Ernest Corscadden & Co.*), Wakefield. DAVID, Leslie Francis (*Josiah Beddow & Son*), London. DOWN, Gordon Harold (*Tudor Davies, Down & Co.*), Bridgend. EVANS, Stanley, with Toledo Woodhead Springs Ltd., Sheffield. FENDICK, Douglas Rowing (*Deloitte, Plender, Griffiths & Co.*), Manchester. FORDYCE, John Alistair (*Walter J. Smith & Son*), London. GLENISTER, John Frederick (*Arthur E. Green & Co.*), London. GORDON, William (*Douglas, Low & Co.*), Johannesburg. GREENING, Ronald Charles (*Fitzwilliams & Co.*), London. HAMER, James Anthony (*Henry Smith, Hamer & Co.*), Manchester. HORE, Edward Augustine (*Whitmarsh, Hore & Co.*), Launceston. JUDGE, Lawrence Fawley (*Butterell & Ridgway*), Hull. LANCASTER, Frank, York. LEPPAN, Peter Dudley (*Vaughan, Key & Payne*), Johannesburg. MCILHERENE, Alexander (*Harold F. Bell & Co.*), Coleraine. MUNRO, Robert Hector (*R. H. Munro & Co.*), London. O'CONNOR, Edward Derek (*Joshua Jones & Co.*), Manchester. O'CONNOR, James Norton (*A. P. Smith & Co.*), Manchester. PEARSON, Clifford (*Sheard, Vickers & Winder*), Liverpool. RAYMOND, Basil Joseph (*Trent, Raymond & Co.*), London. ROBINSON, Noel Darman Benson (*W. Nicklin & Co.*), Manchester. SANDERS, Arthur Edwin (*A. E. Sanders & Co.*), Liverpool. SEARLE, William Ronald Vyvyan (*Hibbert, Sier, Woods & Co.*), London. SHARP, George William, Leeds. SHREWSBURY, Denis Edward (*Douglas, Low & Co.*), Johannesburg. SKAITH, George Edward (*Skaith, Beeson & Co.*), Grimsby. SMITH, Peter Duncan (*Henry Smith, Hamer & Co.*), Manchester. SMITH, Walter Henry (*Chas. O. Nicholson & Co.*), Sunderland. SPRAY, Douglas Henry Dudley (*E. G. Bourne & Son*), London. STEWART, Harold (*Chas. O. Nicholson & Co.*), Sunderland. STOKES, Edward John (*Holmes-White, Herbert & Co.*), London. STORY, John Cullen (*R. Stephen & Son*), Dublin. SYKES, Frank (*F. Sykes & Co.*), London. TWYCCROSS, Henry Cecil (*Goldby, Panchaud & Webber*), Johannesburg. URQUHART, Robert Crews (*Pearse & Ryan*), Johannesburg. WALKDEN, John Wilson (*Baker & Co.*), Northampton. WALTERS, Roy Mabley (*R. M. Walters & Co.*), London. WHIPP, George Douglas (*P. F. Pierce & Co.*), Accrington. WIDGERY, Herbert Slater (*E. G. Thorne & Co.*), Hereford. WOOLLEY, Frederick Lea (*Woolley & Waldron*), Southampton.

### Associates

BADMAN, Alfred Harry (*F. W. Coope & Co.*), Blackpool. BENNETT, Alan Maxwell, formerly with C. Percy Barrowcliff & Co., Middlesbrough. BENNETT, Leonard John, with Moulder & Tyers, Kidderminster. BICKER, Norman Edward (*Bicker, Son & Dowden*), Bournemouth. BOOTH, Thomas Norman (*Hope, Halstead & Co.*), Bury. BRIGGS, Denys Alfred, with Metcalf, McKenzie & Co., Sunderland. CHADWICK,

Edgar Gray (*Butterell & Ridgeway*), Hull. DOCKERILL, Trevor Haydn, with Milne, Gregg & Turnbull, London. DUIGAN, Brian John, with Barnes & Taylor, Pretoria. EVANS, John Martin Redhouse, with Griffiths & Sutton, Southport. GREIG, Beryl Joyce Nance, with H. Tarley & Co., Cape Town. HUNN, Geoffrey Wilson, with Wells, Richardson & Co., Sheffield. LOADER, Francis Roy, with Deloitte, Plender, Griffiths & Co., London. LOWE, John Andrew Pennington (*Hollows & Hesketh*), Wigan. MILLICHIP, Alan (*Ronald Cross & Co.*), Swansea. OWEN, Peter John, with Griffin & Co., Birmingham. PARDOE, Alan Percy, with Mellors, Basden & Co., London. PICK, Isadore, with Michael Berman & Co., Cape Town. PUDDLE, Peter Gordon, with Bicker, Son & Dowden, Bournemouth. SEED, Howard Henry, with Clifford Thornton, Preston. SHEPHERD, Quentin Robert, with Gurney, Notcutt & Fisher, Cape Town. SKIDMORE, Neil Rayner, with W. Vincent Vale & Co., Wolverhampton. TARR, Guy Paul, with Barnes & Taylor, Pretoria. TAYLOR, Sydney (*Beesley, Taylor & Co.*), Preston. TUSTAIN, Colin Roger, with Thomas May & Co., Leicester. WHEATON, Michael Henry, with Mullens & Robinson, Port Talbot. WILLIAMS, Arthur, with R. A. Forbes & Co., Llandudno.

## Events of the Month

**January 3.**—*Coventry*: Debate with members of the Coventry Students' Branch of the Birmingham Chartered Accountants' Society. Hare and Squirrel Hotel, Old Cheylesmore, at 6.15 p.m.

**January 4.**—*Bournemouth*: "Economics," by Mr A. R. Ilesic, M.Sc.(ECON.), B.COM. St. Peter's Hall, Hinton Road, at 6.30 p.m. *Dublin*: "Costing," by Mr D. N. Rowe, A.C.A., A.C.W.A. Students' meeting. Jury's Hotel, Dame Street, at 6.15 p.m.

**January 5.**—*Hull*: Luncheon meeting. Regal Room, Ferensway, at 1 p.m. *Southampton*: "Economics," by Mr A. R. Ilesic, M.Sc.(ECON.), B.COM. Polygon Hotel, at 6.30 p.m.

**January 6.**—*Cardiff*: "Income Tax—Losses, Repayment Claims and Annual Charges," by Mr Gordon G. Thomas, PH.D., A.C.A., F.S.A.A. Students' meeting. Temple of Peace and Health, Cathays Park, at 6.45 p.m.

*Hull*: "Executorship Accounts," by Mr A. E. Langton, LL.B., F.C.A., F.S.A.A. Students' meeting. Church Institute, Albion Street, at 6.15 p.m.

*London*: "The Responsibility which an Audit Clerk owes to his Principal," by Mr C. V. Best, F.S.A.A. Lecture for new members of the Students' Society. Incorporated Accountants' Hall, W.C.2, at 5.30 p.m.

*Oxford*: "Law of Trusts and Trustees," by Mr O. Griffiths, M.A., LL.B. Students' meeting. George Restaurant, George Street, at 6.30 p.m.

*Portsmouth*: "Economics," by Mr A. R. Ilesic, M.Sc.(ECON.), B.COM. Central Library, at 6.30 p.m.

**January 7.—Birmingham**: "The Role of the Banker in Export," by Mr W. E. Dawson, A.I.B., M.I.E.X. Law Library, Temple Street, at 6.15 p.m.

*Bristol*: "Company Law," by Mr D. A. Godwin Sarre, M.A. Royal Hotel, College Green, at 6.30 p.m.

*Hanley*: "Costing," by Mr S. C. Roberts, F.C.W.A., M.I.L.A. Students' meeting. Town Hall, at 7 p.m.

*Leeds*: Dinner dance. Queen's Hotel, at 7.30 for 8 p.m.

*Leicester*: "Figures at Work," a film presented by the British Tabulating Machine Co. Ltd. Students' meeting. British United Shoe Machinery Co. Ltd., Belgrave Road, at 2.30 p.m.

*Manchester*: "Economics," by Mr David Walker, M.A. For Final students. Incorporated Accountants' Hall, 90 Deansgate, at 6 p.m.

*Sheffield*: "Schedule 'D' Computations—Cases I and II," at 4 p.m. "Losses," at 6 p.m. Both lectures by Mr V. S. Hockley, B.COM., C.A., A.A.C.C.A. Students' meetings. Grand Hotel.

**January 8.—Dublin**: Students' Rugby match against Dublin Chartered Accountants' Students' Society.

**January 10.—Coventry**: "Legal and Equitable Apportionments," by Mr P. E. Harris, A.S.A.A. Hare and Squirrel Hotel, Old Cheylesmore, at 6.15 p.m.

**January 11.—Dudley**: "Company Accounts," by Mr P. E. Harris, A.S.A.A. The Dudley and Staffordshire Technical College, The Broadway, at 7 p.m.

*Leeds*: "Money, Banking and Finance," by Mr C. L. Lawton, M.Sc. Jacomelli's Restaurant, Boar Lane, at 6.15 p.m.

**January 12.—Belfast**: Luncheon meeting. Talk by Mr H. A. R. J. Wilson, F.C.A., F.S.A.A., Kensington Hotel, College Square East, at 1 p.m.

*Belfast*: "Income Tax Problems," by Mr H. A. R. J. Wilson, F.C.A., F.S.A.A. Students' meeting. 13 Donegal Square West, at 7 p.m.

*London*: Meeting of the Taxation Group. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

**January 13.—Dublin**: "Some Accounting Problems," by Mr H. A. R. J. Wilson, F.C.A., F.S.A.A. Students' meeting. Jury's Hotel, Dame Street, at 6.15 p.m.

*Manchester*: Dinner. Midland Hotel, at 6.15 p.m.

*Nottingham*: "Sources of Capital for Industry," by Mr H. G. Hodder. Reform Club, Victoria Street, at 6.30 p.m.

*Wolverhampton*: "Practical Problems in Auditing," by Mr R. Glynne Williams, F.C.A., F.T.I.L. Molineux Hotel, at 6.15 p.m.

*Worcester*: "Executorship Accounts," by Mr L. J. Northcott, F.C.A. Crown Hotel, at 6.15 p.m.

**January 14.—Birmingham**: "Financial Accounts and Cost Accounts," by Professor D. Cousins. Law Library, Temple Street, at 6.15 p.m.

*Cambridge*: "Partnership Law and Accounts," by Mr R. Glynne Williams, F.C.A., F.T.I.L. Shirehall, at 7 p.m.

*Cardiff*: "Estate Duty and Controlled Companies," by Mr P. Shelbourne, Barrister-at-Law, Park Hotel, at 7 p.m.

*Manchester*: "Taxation," by Mr N. D. B. Robinson, M.B.E., A.S.A.A. For Intermediate students. Estate Exchange, Fountain Street, at 6.30 p.m.

*Manchester*: "Economics," by Mr David Walker, M.A. For Final students. Incorporated Accountants' Hall, 90 Deansgate, at 6 p.m.

*Swansea*: "Gibraltar to Suez," by Mr Bernard Newman. Mackworth Hotel, at 7 p.m.

**January 18.—Bradford**: "The Auditor and Stock in Trade," by Mr G. W. Murphy, B.A.(COM.), F.C.A. Liberal Club, Bank Street, at 6.15 p.m.

*Middlesbrough*: "Standard Costing," by Mr W. W. Bigg, F.C.A., F.S.A.A. Cafe Royal, Linthorpe Road, at 6.30 p.m.

*Plymouth*: "Taxation," by Mr V. S. Hockley, B.COM., C.A. Law Chambers, Princess Square, at 6 p.m.

*Preston*: "The Accounting Provisions of the Companies Act, 1948," by Mr H. Hudson, F.S.A.A., A.C.I.S.

*Sheffield*: "Law of and Procedure at Meetings," by Mr H. C. Cox, F.C.A. Grand Hotel, at 5.45 p.m.

**January 19.—Newcastle-upon-Tyne**: "Auditing," by Mr W. W. Bigg, F.C.A., F.S.A.A. Library, 52 Grainger Street, at 6.15 p.m.

*Truro*: "Taxation," by Mr V. S. Hockley, B.COM., C.A. Mansion House, Princes Street, at 6 p.m.

**January 20.—Camborne**: "Taxation," by Mr V. S. Hockley, B.COM., C.A. Community Centre, at 6 p.m.

*Cardiff*: "What does a Banker look for in a Balance Sheet?" by Mr W. D. Evans, F.I.B. Students' meeting. Temple of Peace and Health, Cathays Park, at 6.45 p.m.

*Oxford*: "Introduction to Income Tax," by Mr R. Langdon-Davies, A.C.A. Students' meeting. George Restaurant, George Street, at 6.30 p.m.

**January 21.—Birmingham**: "Current Economic Problems," by Mr G. Horwill, B.Sc. (ECON.), M.COM. Joint meeting Imperial Hotel, Temple Street, at 6.30 p.m.

*Bristol*: Film Show: "Balance 1950," "Enterprise" and "Unemployment and Money." (Aims of Industry Ltd.). Royal Hotel, College Green, at 6.30 p.m.

*Gloucester*: "Partnership Tax and Losses," by Mr V. G. Mundy, A.S.A.A. Gloucester Technical College, Brunswick Road, at 6.30 p.m.

*Glasgow*: "Revaluation of Assets on Replacement Costs," Students' debate. Christian Institute, 70 Bothwell Street, at 5.45 p.m.

*Manchester*: "Executorship," by Mr C. L. Lawton, M.Sc., Barrister-at-Law. Students' meeting. Incorporated Accountants' Hall, 90 Deansgate, at 6 p.m.

*Norwich*: "Balance Sheets and the Banker," by Mr A. C. Fellingham, F.I.B. Royal Hotel, at 7 p.m.

*Nottingham*: "Flotations and Prospectuses," by Mr C. R. Curtis, M.Sc., PH.D., F.C.I.S. Reform Club, Victoria Street, at 6.30 p.m.

*Sheffield*: "Banking," by a representative of Barclays Bank Ltd. Students' meeting. Grand Hotel, at 5.30 p.m.

**January 24.—Coventry**: "Consolidated Accounts Reconstructions and Amalgamations," by Mr R. Glynne Williams, F.C.A., F.T.I.L. Hare and Squirrel Hotel, Old Cheylesmore, at 6.15 p.m.

**January 25.—Dublin**: "Basis of Assessment, Schedule 'D,' Cases I and II, including Change of Accounting Dates," by Mr G. L. M. Wheeler, A.C.A., A.C.I.S. Students' meeting. Jury's Hotel, Dame Street, at 6.15 p.m.

**January 26.—London**: Meeting of the Management Group. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

*Newcastle-upon-Tyne*: "Standard Costing," by C. E. Sutton, A.S.A.A. Library, 52 Grainger Street, at 6.15 p.m.

**January 27.—Newcastle-upon-Tyne**: Luncheon. Speaker: Mr S. A. Sadler Forster, Chairman of North Eastern Trading Industries Ltd. Eldon Grill, at 1 p.m.

*Swansea*: "Auditing Problems," by Mr H. K. Greaves, F.S.A.A., F.I.M.T.A. Students' meeting. Central Public Library, Alexandra Road, at 7 p.m.

**January 28.—Birmingham**: "Problems of Capital and Income in Trust Accounts," by Mr C. L. Lawton, LL.M., M.Sc. Law Library, Temple Street, at 6.15 p.m.

*Brighton*: "Taxation," by Mr L. J. Northcott, F.C.A. Students' meeting. Royal Pavilion Hotel, Castle Square, at 5 p.m.

*Hull*: "Company Flotations and Prospectuses," by Mr C. R. Curtis, M.Sc.(ECON.), PH.D., F.C.I.S. Students' meeting. Church Institute, Albion Street, at 6.15 p.m.

*Leicester*: "Executorship Accounts," by Mr V. S. Hockley, B.COM., C.A. Students' meeting. Victoria Hotel, Granby Street, at 6 p.m.

*London*: Dinner dance. Hyde Park Hotel.

*Manchester*: "Economics," by Mr David Walker, M.A. For Final students. Incorporated Accountants' Hall, 90 Deansgate, at 6 p.m.

**February 1.—Bradford**: "Law of Contract and Sale of Goods," by Mr R. Henton,

B.A., LL.B. Liberal Club, Bank Street, at 6.15 p.m.

*Shrewsbury*: "The National Income and Expenditure," by Mr R. W. Moon, B.LITT., A.C.A. Raven Hotel, at 6.30 p.m.

**February 3.—Birmingham**: Students' dance. St. John's Restaurant, Deritend, at 8 p.m.  
*Cardiff*: "The Duties of the Auditor in connection with the Issue and Transfer of Shares, etc.," by Mr W. W. Bigg, F.C.A., F.S.A.A. Students' meeting. Temple of Peace and Health, Cathays Park, at 6.45 p.m.

*Dublin*: Students' debate with Chartered students. Jury's Hotel, Dame Street, at 6.15 p.m.

**February 4.—Birmingham**: "Demonstration of a Tax Computation," by Mr L. A. Hall, A.C.A., A.S.A.A. Law Library, Temple Street, at 6.15 p.m.

*Bristol*: "Investigation of Accounts for the Purchaser of a Business," by Mr A. C. Simmonds, F.S.A.A. Royal Hotel, College Green, at 6.30 p.m.

*Cambridge*: Mock company annual general meeting. Arranged in conjunction with the Chartered Institute of Secretaries. Shirehall, at 7 p.m.

*Glasgow*: Students' meeting. Christian Institute, 70 Bothwell Street, at 5.45 p.m.

*Manchester*: "Economics," by Mr David Walker, M.A. For Final students. Incorporated Accountants' Hall, 90 Deansgate, at 6 p.m.

*Manchester*: "Taxation," by Mr N. D. B. Robinson, M.B.E., A.S.A.A. For Intermediate students. Estate Exchange, Fountain Street, at 6.30 p.m.

**February 5.—Liverpool**: Students' annual dance. Mecca Café, India Buildings.

## District Societies and Branches

### Scottish Branch Council Meetings

A MEETING of the Council of the Scottish Branch was held in Glasgow on October 29. Mr. Festus Moffat, O.B.E., President of the Branch, was in the chair.

Reports were received on applications received for the November examinations and on the numbers of students who had enrolled for tuition classes at the Scottish universities and at the Glasgow and West of Scotland Commercial College. The Secretary reported that a revised standard for exemption from the Preliminary Examination for Scottish candidates would take effect from January 1, 1955.

A further meeting was held on November 19, Mr Moffat again presiding.

Mr Bertram Nelson, President of the Society, and Mr Ian A. F. Craig, Secretary, were present at this meeting. They had already met members of the Scottish Council at luncheon.

Mr Moffat welcomed Mr Nelson and Mr

Craig, and expressed the hope that this would be the first of many visits.

Discussion took place on registration and other matters of importance to the profession.

### North Lancashire

THE ANNUAL GENERAL MEETING was held on December 9. Mr P. F. Pierce was re-elected President, and Mr H. Ryden and Mr H. Yates were re-elected Vice-Presidents. The Treasurer, Secretary and Librarian also remain unchanged.

## Examinations— May 1955

THE SOCIETY'S EXAMINATIONS will be held on the following dates:

Preliminary	May 10 and 11, 1955
Intermediate	May 12 and 13, 1955
Final: Part I	May 10 and 11, 1955
Part II	May 12 and 13, 1955

The centres will be Belfast, Birmingham, Cardiff, Dublin, Glasgow, Leeds, Liverpool, London, Manchester, Newcastle upon Tyne and Southampton.

Completed application forms together with all the relevant supporting documents and the fee (Final, Part I, £4 4s; Part II, £4 4s; Parts I and II together, £7 7s; Intermediate, £4 4s; Preliminary, £3 3s) must reach the Secretary at Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London W.C.2, not later than Monday, March 14, 1955.

Candidates are asked to obtain application forms from the Honorary Secretary of their Branch or District Society.

## Personal Notes

Mr H. L. Moses, A.S.A.A., has commenced public practice under the style of Harold L. Moses & Co., Incorporated Accountants, at 67 Baker Street, London, W.1.

Messrs. Mundy, Brewer & Johnson, Incorporated Accountants, Bath, announce that Mr Duncan Harrison, A.S.A.A., has been taken into partnership. The firm name is unaltered.

Mr Charles T. Baker, Incorporated Accountant, has commenced public practice in his own name at 73 Ravensbourne Gardens, Ilford, Essex.

Messrs Hunter, Jones, Halford & Co., London, E.C.4, have admitted to partnership Mr A. G. Buchan, A.S.A.A.

Mr H. J. Cox, Incorporated Accountant, Luton, has taken into partnership Mr K. S. Warner, Chartered Accountant, a member of his staff for some years. The style of the firm will remain H. J. Cox & Co.

The Manchester practices of Messrs Peat, Marwick, Mitchell & Co. and Messrs Edwin Guthrie & Co. are now amalgamated. The joint practice will be conducted from 71 King Street, Manchester, under the names of Peat, Marwick, Mitchell & Co. and Edwin Guthrie & Co.

Mr V. Whiteman, A.S.A.A., secretary of William Tatton & Co. Ltd., Leek, Staffordshire, has been appointed in addition a director of the company.

Mr N. Wilson Barrett, B.COM., A.S.A.A., has been appointed accountant to Scapa Dryers Ltd., Blackburn.

Mr William Newman, Incorporated Accountant, is now practising as William Newman & Co., at 19 Blandford Place, George Street, Baker Street, W.1.

## Removals

Messrs Knight & Co., Incorporated Accountants, have removed their office to 25 Wormwood Street, London, E.C.2.

Messrs Baker & Co., Incorporated Accountants, have moved to Shell House, London Road, Leicester.

## Thomas Harold Platts

WE DEEPLY REGRET to report that Mr T. Harold Platts, F.S.A.A., died on November 30, at the age of 61.

After serving articles with the late Mr J. P. Duxbury, F.S.A.A., Mr Platts became a member of the Society of Incorporated Accountants in 1917. He then joined the firm of Forrest, Son & Virr, Birmingham, and soon afterwards was admitted to partnership, the firm becoming Forrest, Son & Platts; from 1927 till his retirement in 1951 he was senior partner in Messrs. T. Harold Platts & Co.

At the annual general meeting of the Society in May, 1940, Mr Platts was elected a member of the Council, on which he served with distinction for eleven years.

He was keenly interested in the work of the Incorporated Accountants' Birmingham and District Society, in which he held the offices of Honorary Secretary from 1924 to 1929, Vice-President from 1935 to 1938, and President from 1938 to 1945, when he became again a Vice-President till the date of his death.

At the funeral in Droitwich on December 10, the President and Council of the Society of Incorporated Accountants were represented by Mr W. G. A. Russell, F.S.A.A., and the Birmingham District Society by Mr Percy G. Stembridge, F.S.A.A. (President) and Mr Arthur W. Watson, F.S.A.A. (Vice-President).



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## Classified Advertisements

Two shillings and sixpence per line (average seven words). Minimum ten shillings. Box numbers one shilling extra. Replies to Box Number advertisements should be addressed Box No. . . ., c/o ACCOUNTANCY, Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2, unless otherwise stated. It is requested that the Box Number be also placed at the bottom left-hand corner of the envelope.

### APPOINTMENTS VACANT

**THE SOCIETY'S APPOINTMENTS REGISTER**  
Employers who have vacancies for Incorporated Accountants on their staffs and also members seeking new appointments are invited to make use of the facilities provided by the Society's Appointments Register. No fees are payable. All enquiries should be addressed to the Appointments Officer, Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2. Tel. Temple Bar 8822.

**ACCOUNTANTS** required for **NIGERIA PUBLIC WORKS DEPT.**, Northern Region, for one tour of 15-24 months with prospect of permanency. Commencing salary according to experience in Salary Scale (including expatriation pay) £750 rising to £1,480 a year. Outfit allowance £30/£60. Free passages for Officer and wife. Assistance towards cost of children's passages or grant up to £150 annually for maintenance in U.K. Liberal leave on full salary. Candidates must have had at least five years accountancy experience including budgetary control with a large firm of Public Works Contractors or a Municipality. They must have organising ability and also be able to control staff. Membership of one of the recognised bodies of professional accountants an advantage. Write to the Crown Agents, 4 Millbank, London, S.W.1. State age, name in block letters, full qualifications and experience and quote M1/34874/AD.

**ACCOUNTANTS.** Large Engineering Company, greater South London area, has senior vacancies offering bright future to qualified and semi-qualified Accountants with good accounting experience in engineering including punched card methods:

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  2. Senior Assistant to Stores Accountant.
  3. Senior Assistant to Sales Accountant.
- Commencing salaries within range £600-£800. Superannuation. Write concisely, in tabular form, age, education, qualifications, experience to Box No. 104, c/o ACCOUNTANCY.

**ACCOUNTANT** for West Africa. Firm of practising accountants requires Chartered or Incorporated Accountant for their staff in the Gold Coast. Applicant must be single, not more than 35 years of age and should be prepared to travel. Commencing salary at the rate of not less than £1,200 per annum. Eighteen months' tours, first class travelling: three months' leave on full salary between tours. Free furnished quarters. Provident Fund. £60 kit allowance. Low Income Tax. Apply with fullest particulars to Box No. 334, DORLAND ADVERTISING LTD., 18-20 Regent Street, London, S.W.1.

**ACCOUNTANT** required by the **KENYA GOVERNMENT** for Accountant General's Department. The appointment is pensionable subject to an initial period of probation. Commencing salary according to experience in salary scale (including present temporary allowance of 35% of salary) £742 rising to £1,580 a year. Outfit allowance in certain circumstances £30. Free passages. Liberal leave on full salary after tour of 40-48 months. Candidates, under 40 years must be members of a recognised body of professional accountants and possess administrative ability and initiative. They should have had experience of budgetary control and office management. Write to the CROWN AGENTS, 4 Millbank, London S.W.1. State age, name in block letters, full qualifications and experience and quote M1/34333/AD.

**AUDIT Clerk.** Semi-senior, required by City Accountants. Able to work to final accounts under supervision. Write, stating age, experience and salary required, to Box 107, c/o ACCOUNTANCY.

**AUDIT Clerks, Senior and Semi-Senior,** required by Chartered Accountants. 5-day week and Pension Scheme. Write particulars age, experience and salary required to MAYHEW-SANDERS & COMPANY, 31 St. James's Place London, S.W.1.

**BROMLEY, Kent.** Busy general Practice has vacancies for senior and semi-senior Assistants. Good salaries according to experience and ability. Write with details to BERRINGER & CO.

**A LEADING BRITISH COMPANY** with many factories and subsidiary companies in the United Kingdom and Overseas is at present reviewing senior staff requirements for the next 5/10 years and invites applications from young men who have completed Military Service and who preferably hold an Accounting qualification.

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Will all those who consider they have the necessary ability take full advantage of this opportunity and kindly write in the strictest confidence to Box No. 105, c/o ACCOUNTANCY.

**ACCOUNTANT** required by the **NIGERIAN FEDERAL GOVERNMENT Treasury** for one tour of 15-24 months in first instance. Commencing salary according to experience in salary scale (including expatriation pay) (a) £750 rising to £1,480 a year with prospect of permanency; or (b) £807 rising to £1,631 a year, on contract with gratuity of £100/£150 a year. Outfit allowance £30/£60. Free passages for the officer and wife. Assistance towards cost of children's passages or up to £150 annually for maintenance in United Kingdom. Candidates between 23 and 35 should be members of a recognised body of professional accountants or have good experience with a firm of Accountants, a Bank or in Accounts Branch of a Government Department, Municipality or Public Company. Write to the CROWN AGENTS, 4 Millbank, London, S.W.1. State age, name in block letters, full qualifications and experience and quote M1/34668/AD.

**CHARTERED or INCORPORATED Accountant** required immediately. Apply, giving full details, to J. F. W. ROBINSON & CO., Chartered Accountants, P.O. Box 10, Bank Chambers, Murray Road, Workington, Cumberland.

**CITY Chartered Accountants** require qualified Audit Clerk. Permanent and progressive position. Salary from £650 per annum according to experience. Recently qualified men considered. Five-day week. Pension Scheme. Apply Box No. 106, c/o ACCOUNTANCY.

**HAROLD WHITEHEAD & Partners**, of 31 Palace Street, S.W.1., invite applications for vacancies in their team of consultant specialists on Organisation and Methods. Applicants, preferably accountants with Chartered, Incorporated or equivalent qualification, should have an aptitude for research into management problems and should have gained practical experience in an executive position in industry or commerce. The appointments are permanent and pensionable. Applications, which will of course be treated in the strictest confidence, should be sent to us marked in the left-hand corner "O & M."

**I.C.I. (INDIA) LTD.** have a vacancy for a young Chartered or Incorporated Accountant to join their Accounts Department in India. Candidates should be not more than 30 years of age and preference will be given to single men. Salary according to age and experience. Apply in writing to IMPERIAL CHEMICAL INDUSTRIES LIMITED, Overseas Personnel Section, Central Staff Department, I.C. House, Millbank, London, S.W.1.

**KENYA.** An experienced Accountant, preferably Chartered or Incorporated, aged 30/35, married or single, is required for the position of Senior Accountant of the Magadi Soda Company Limited, Kenya. Applicants must have had professional and industrial experience since qualifying. Salary according to age and experience. A generous cost of living allowance and free housing accommodation is provided. The successful applicant will be required to join the Staff Pension Scheme. An initial tour of 31 months will be followed by 5 months home leave. Free first class passages will be granted to the successful applicant and possible family. Applicants should send details of qualifications and experience to the Secretary, THE MAGADI SODA COMPANY LIMITED, The Avenue, Winton, Northwich, Cheshire.

**INCORPORATED Accountant** required by small firm of Incorporated Accountants in City as Senior Assistant. Good knowledge of taxation and incomplete records and ability to work without supervision essential. Write stating age, experience and salary required to Box No. 101, c/o ACCOUNTANCY.

**LARGE public engineering company** in north-east Manchester has vacancy for young Chartered or Incorporated Accountant who has completed military service. Excellent opportunity for young man with leadership ability wishing for a career in industry. Good salary with generous non-contributory pension scheme. Apply by letter giving details of professional and military experience to Box No. 108, c/o ACCOUNTANCY.

**SEMI-SENIOR** audit clerks required by West End firm of Chartered Accountants. Salary according to age and experience. Pension scheme. British nationality only. Reply stating age, experience and salary desired to Box No. 103, c/o ACCOUNTANCY.

**TURQUAND, YOUNGS & Co.,** 19 Coleman Street, London, E.C.2, have vacancies in the East for Chartered and Incorporated Accountants, preferably single, and under 35 years of age; a 3½ years' contract; progressive salary; first-class passages; six months' leave at end of contract. Commencing salary, plus allowance, equivalent to £1,610. Short probationary period in London office. Good future and prospects for right man. Apply Staff Manager.

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**YOUNG** qualified accountant required for service in **NIGERIA** with a firm of booksellers and stationers having branches throughout the country. Initial tour of 18-24 months. Some experience in a commercial office preferable: experience in audit work and stock control very desirable: experience of operating mechanized accounts an advantage. Applicants should have some church affiliation. Salary according to age and qualification in range £800 x £30-£1,080 plus £100 p.a. Expatriation Allowance. Contributory pension scheme. Free passages and housing. Outfit allowances. Apply giving details of age and experience to the Secretary, C.M.S. (NIGERIA) BOOKSHOPS, 6 Salisbury Square, London, E.C.4.

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